

Causes of the Business Cycle

By PHILIP G. WRIGHT

Institute of Economics, Washington, D. C.

Striking Characteristic of Depression is not Inactivity of Nature but of Men. Casual Forces Back of Group Psychology. An Analysis of Causes Based on Elements in Human Nature. Each Cycle Has an Individuality of Its Own. Their Complete Eradication Is Unlikely.

WHY is the business world subject to a sequence of successive stages of exaltation, collapse, depression and slow recovery? The answers to this question have been various. Some writers have emphasized the over extension of credit and some the psychologic aspects. Rodbertus advanced a theory that the period of depression was due to a preceding period of general overproduction. Economists of the orthodox school, denying the possibility of general overproduction because of the insatiability of human wants, have yet admitted the possibility of a maladjustment of production to demand and have emphasized the function of the distributing middlemen (jobbers, wholesalers, etc.) as having an important bearing on the phenomenon. This view is ably presented by Taussig.

Sun Spot Theory

A most interesting approach has been made from an entirely different angle. The rough periodicity suggested to Jevons that there might be some regularly recurring event in external nature which was

basically responsible. At the time when Jevons wrote, business revolutions had occurred at intervals of approximately eleven years and the same interval intervened between successive sun-spot maxima. His thought ran somewhat as follows:

Jevons' Reasoning

General prosperity is at bottom dependent upon agricultural prosperity, agricultural prosperity is in turn dependent upon weather conditions, and weather conditions are unquestionably determined by solar radiation. Might not differences in the surface of the sun such as are evident in its different degrees of spottedness influence solar radiation and hence successively the weather, crops, and general business conditions?

More recently Moore of Columbia University, starting with data as to rainfall in the Ohio valley and in Illinois, and following up his first studies with data as to rainfall, crops, and prices in various regions, has developed a theory of an eight-year business cycle. Moore's work has not seemed to the present writer convincing. In some cases a seven-

year period seemed to fit the data better than an eight-year period and in other cases a nine-year period. Indeed even for continuous data extending over a considerable number of years and relating to the same subject, as prices, the cycles were obviously not of the same length. A critical study of Sauerbeck's index numbers of wholesale prices extending over a period of ninety-eight years showed a remarkably good fit for a nine-year cycle for some fifty years of the whole period, but both before and after this fifty-year interval the nine-year cycle cannot be said to have fitted the data at all. This would seem to be inconsistent with the idea that the fundamental cause of the cyclical movements of business was to be found in some regularly recurring phenomenon of nature.

Greater Than Crops

It would be rash, however, to assert that conditions in external nature have had nothing to do with business cycles. On the contrary, it is highly probable that good or bad crop years have much to do with the ups and downs of general

business conditions. But even in cases where they are influential, their action would seem to be like that of a catch or spring or trigger which when released, sets in operation forces greater than itself. For the difference between a period of business exaltation and a period of business depression is vastly greater than the difference between the crops in these periods. The striking characteristic of a business depression is not the niggardliness of nature but the inactivity of men. Indeed, in unconscious irony of the want and misery of these periods they have been called periods of "over production." The obvious situation is that of an impasse, a vicious circle, a stalling of the industrial mechanism. In a time of depression as in a time of exaltation there are virtually the same human and non-human potentialities, but, in the one case they are in active operation, in the other, they are not. There are the same material resources of land and water and minerals. There are the same men, some having savings which could be turned into capital, some having business ability of an order to make them capable of initiating and conducting business enterprises, and the rest able to engage, under direction, in labor of all kinds.

The Vicious Circle

But they are as though under a spell. Wage earners are not purchasing because they have not purchasing power; they are without purchasing power because they are unemployed; they are unemployed because business men will not employ them; business men will not employ them because there is no market for their products; there is no market for their products because wage earners will not purchase. This brings us back where we started—a vicious circle.

It would seem as though by a wave of the wand the spell could be broken, as though by a kiss from the prince implanted on the lips of the sleeping princess the whole court would wake and start into action. If all business men could be simultaneously inspired with confidence the period of depression would instantly be converted into a period of exaltation. Producers

would extend them credit, employ labor, and operate their plants to capacity. The increased purchasing power of wage earners would react successively back upon retailers, wholesalers, and finally back to the producers, taking the increased output off their hands. The point to be made is that the difference is a difference in group psychology rather than in the conditions of nature.

High Lights of a Theory

Now it may well be that differences in the annual rainfall, or more particularly differences in rainfall during the critical period of growth of the great staple crops, may sometimes be the causal force back of such changes in group psychology. There may be magnetic or electric phenomena that subtly affect the human emotions. It is known that the prevalence of sun-spots does affect electric phenomena on the earth. All of this may be true. The purpose of this paper, however, is to show that without any such hypothesis there are elements in human nature and in the economic organization of society sufficient in themselves to account for these cyclical changes in business activity.

It is not pretended that the following analysis is exhaustive. The economic circulatory system of a competitive society is an intricate and delicate organism, marvelously perfect when all of its organs are functioning normally, but sensitive and easily thrown out of adjustment. Sometimes one of the factors about to be discussed is of dominating influence and sometimes another, and, doubtless, sometimes factors not mentioned at all play the most important rôle. Each cycle has an individuality of its own and should be studied on its own merits. The following outline is not offered as the theory of business cycles, but as a theory of business cycles. It is designed to show that in a perfectly normal competitive society, functioning under normal conditions and subjected to no unusual outside influences either from nature or man, there are yet agencies inherent in the social order itself and in the psychology of its human units sufficient to bring about ups and downs of busi-

ness in a rather roughly periodic sequence.

The high lights of this theory of business cycles are the following:

(1) Capitalist production with its corollary of economic classes: (a) Business men, in which class for the purpose of this discussion, may be included capitalists, *entrepreneurs** and the higher *salariat*.† This class is numerically small, relatively, to the whole population, but it constitutes the class that initiates enterprise, the class that determines whether the wheels shall be kept moving. (b) Wage earners and salaried employees (except the higher *salariat*). This class performs under direction all the mental and physical labor appertaining to the activities initiated by the first class. The purchasing power of its members, individually considered, would show a low average, but collectively because the class is numerically by far the largest class the purchasing power is enormous.

Credit

(2) The purchasing power of credit and its effect upon prices. Credit in the form of checks drawn against bank deposits or book credit, or purchases with payments to be made on the installment plan constitutes an effective demand for goods coördinate with money. It is attached to a gold basis—in a country where specie payments prevail—by an elastic bond. When stretched, that is, when the superstructure of credit built upon the gold basis is increased, prices tend to rise; when relaxed, that is when credit is contracted, prices tend to fall.

(3) Capitalistic production is a time-consuming process and is initiated in anticipation rather than in response to demand. More particularly it is initiated in anticipation of several strata of demand corresponding to the several economic strata of consumers. The types of goods consumed by well-to-do business men are somewhat

* An economic term applied to the men who assume the responsibility of organizing and conducting a business. They assemble the plant, material, and labor force, pay wages or salaries to their employees, and take the risk of profits or losses from their enterprise.

† Salaried employees are usually classed for economic purposes with wage-earners. But the presidents and managers of corporations, especially if, as is often the case, they own a majority of the stock, though paid a salary from the profits of the concern, approach more nearly in their function to that of business men.

different from those consumed by their salaried employees, and these in turn are somewhat different from those consumed by skilled laborers, and these in turn are somewhat different from those consumed by common laborers. A maladjustment of production to demand is thus rendered certain, if the purchasing power of a certain stratum falls off.

Lag of Wages

(4) The lag of wages. This is a fairly well established economic phenomenon. When prices rise, wages rise, but more slowly. When prices fall, wages also fall, but again more slowly. Two possible interpretations of this phenomenon may be hazarded. (a) The competition at the margin between capital, goods and labor. As Seager has pointed out *entrepreneurs* often have the option of producing the same commodity with more highly refined labor saving machinery and less labor or with simpler tools and more labor. In times of rising wages, they may somewhat retard the rise by substituting labor-saving machinery. (b) An acceleration in the rate at which prices rise due to the extension of credit for the purchase of consumable goods by the wage-earning classes themselves.

(5) The contagion of group psychology. Emotions radiate from centers, ramify, and create a widely diffused social consciousness.

(6) The barometric position of distributing middlemen—wholesalers, retailers, jobbers—who stand between producers and ultimate consumers. They are the radiant centers of group psychology, or, at least, they forecast states of social consciousness.

It is now possible to throw on a screen a moving picture of the above forces in action. To begin at the period immediately following a period of depression; distributing middlemen note a slight improvement in retail trade. They increase their orders to the manufacturers and farmers. The manufacturers are made more optimistic and increase their output. This involves working their plants more nearly to capacity and employing more laborers, which increased demand for labor causes less unemployment and rising wages. The purchasing power

of the laboring class is thus improved. Retail trade improves. This reacts on wholesale trade, which again reacts back to manufacturers, causing a still further increase in output, demand for labor, and rise of wages. The increasing volume of business puts business men into an optimistic frame of mind. They, being the radiant centers of group psychology, diffuse their optimism among all sections of the community. In this optimistic frame of mind, business men extend their credit to enlarge their plants and purchase new machinery and wage-earners also extend their credit for the purchasing of houses, household furniture, fur coats, automobiles, pianos, and other articles on the installment plan. The general extension of credit results in a general rise of prices. A rising market still further stimulates the optimism of business men, which optimism continues to be diffused.

Extend Credit

Wages also rise and because of the generality of employment the purchasing power of the wage-earning class as a whole is greatly increased, but, because of the fact that prices rise more rapidly than wages, the individual wage-earner may be no better off. (The family, however, may be better off, if in the accelerating pace of industry more of its members are employed.) However, because of the higher money wages and the illusion that "a dollar is a dollar" and because of the contagion of group psychology radiated from their employers, they *feel* better off and still further extend their credit. They are "living on the income of next year." The types of goods consumed by the wage-earning masses are started on their time-consuming process of production in increasing quantities in response to the increasing effective demand—an effective demand largely based on credit. And so the process goes on.

But eventually "next year" comes round. The accumulated indebtedness for past enjoyment and the lag of wages behind prices cause wage-earners to economize on new purchases. Moreover, the generality of employment having reached a maximum, the decreasing purchasing power of the individual can no longer be offset by an increased pur-

chasing power of the group as a whole. The distributing middle men note a falling off in the retail trade.

Slowing Down

There is a "premonitory chill." Orders on manufacturers decrease. There is a slackening up of production and a laying off of men accompanied by a fall in wages; thus decreasing the purchasing power of the wage-earning class, and still further reacting upon retail and wholesale trade back to the manufacturers. The stream of goods designed for the wage-earning masses, which have been started on their progress towards finished consumable goods, cannot at once be checked. These goods come to completion at a time of diminished purchasing power by the consumers for whom they were designed. There is a maladjustment of production to demand, a glut on the market, a contraction of credit and a rapid fall of prices—a fall more rapid than the accompanying fall in wages. Optimism and a spirit of venture give way to pessimism and timidity. There is a period of rigid economy, but eventually old debts are paid, houses are crying for repairs, clothes wear out and must be replaced. Unemployment has reached its maximum. The low prices tempt purchasers, whose incomes have not fallen as rapidly as prices. There begins an improvement in the retail trade. This is noted by the distributing middlemen—which brings us back to where we began. And so the cyclical process repeats itself.

It will be noted that in the foregoing paragraphs the existence of a business cycle is demonstrated in a capitalist society functioning perfectly normally. It is shown that even in such a society business will have its ups and downs. But in any actual society there are, in addition to the factors discussed, disturbing factors, such as depreciation of the money medium, good or bad harvests, major labor disturbances, business failures of great financial institutions, wars and rumors of wars, epoch making inventions and discoveries, all of which would have a tendency to modify the character of each cycle making it longer or shorter, or of greater or less amplitude. Hence no two cycles are likely to be just

alike. Each one must be studied on its own merits. This fact by bringing into prominence adventitious factors tends to obscure the fundamental forces always at work.

Even with a perfectly smooth running capitalist society it is doubtful if the series of stages of group psychology would run their course in the same period of time or with the same difference between stages of exaltation and stages of depression. It is characteristic of human functioning, whether of the mind or body, that the sequence is roughly rather than precisely periodic. The breathing, the systole and diastole of the heart, the partaking of food, states of spiritual uplift and depression readily occur to the mind. But when all of the disturbing factors which may hasten or retard the normal undulations of business activity are taken into account, it seems unlikely that predictions based on the theory of regularly recurring cycles can ever be made with sufficient definiteness either as to time or magnitude to offer much comfort either to speculators or conservative business men. Indeed a prediction, generally accepted, becomes a new factor in shaping group psychology. A widespread belief that a business revulsion or a business recovery is to begin six months hence, would be a powerful agent for making the revulsion or the recovery begin to-day.

The chief interest in business cycles in the minds of the masses is in their abolition. The periods of depression are periods of terrible hardship to wage-earners and the unemployed as well as periods of

anxiety and sometimes ruin, even to conservative business men. Can business be made to run on a more even keel? If the above diagnosis is correct, it would seem that the causes lie so deep in human psychology and in the very essence of capitalist production that complete

—a spirit of saving in times of prosperity against times of adversity, instead of stretching credit to the breaking point in times of prosperity with nothing left but debts to face the period of unemployment that is to follow. Finally, when the period of depression

comes, concerted action among business men and by government agencies to keep the masses employed and hence improve their purchasing power will be helpful. There is not at any time a surplus production of goods with reference to human wants, least of all in a time of depression. But with reference to human purchasing power there may be overproduction or at least maladjustment. Any adjustment of the social mechanism which will afford means to buy to all who want to buy and who are willing to furnish a fair equivalent in production labor for the remuneration they receive, will take off the market all the goods—if the goods are of the right kinds—which the same society can produce and will keep the wheels of industry in motion.



W. P. G. HARDING

Former Chairman of Federal Reserve Board, Appointed Governor of the Federal Reserve Bank of Boston

eradication is unlikely. In the future as in the past, business is likely to have its ups and downs with a rough periodicity.

It is possible, however, that the violence of the fluctuations may be somewhat mitigated. A sound monetary and banking system will help. The dissemination of a spirit of thrift among the masses will help

tical with those which attend upon the collection of reparations from Germany by the allied countries, says the review of the National City Bank of New York. The government of a country has no means of paying its debts except by taxes, and there are limits beyond which tax levies yield diminishing instead of increasing returns.

The War Debts

The difficulties to be surmounted in dealing with this indebtedness running to the U. S. Government are practically identical

An Economic Diagnosis of Europe

By BENJAMIN M. ANDERSON JR., Ph.D.

Economist of the Chase National Bank, New York

Price System and the Nature of Money. Free Play of Private Enterprise the Great Hope of the Future. Patch Work Solutions Not Likely to Succeed. Observance of Three General Principles Necessary for the Rehabilitation of Europe. American Aid.

MODERN business goes on under the control of prices. Labor and capital flow away from those industries where prices are falling and flow into those industries where prices are rising. If prices generally are rising, some prices will rise faster than others. The tendency is for labor and capital to go where prices are rising most rapidly, and to leave those industries where prices are rising less rapidly. Unusual profits tend to appear in the industries of rising prices, and business men seeking to share those profits enlarge operations in those fields.

Rising prices, moreover, tend to check consumption, while falling prices tend to increase consumption. Through the machinery of prices, therefore, the labor, capital, and other resources of a community tend to reach the most effective utilization. The scarcity of commodities in one line, reflected in prices, leads on the one hand to increased production, and on the other hand to diminished consumption; whereas an overabundance of commodities in another line tends to correct itself through falling prices, which check production and increase consumption. Under the price system, without any conscious public planning, with each business man acting for himself, seeking to make profits and to avoid losses, with each laborer acting for himself, seeking to get out of the industries where wages are falling and to get into the industries where wages are rising, with each investor looking after his own interests, seeking to place his funds where the highest yield is to be obtained, the tendency is for the labor and capital of the country to be distributed in such a way as to bring about its most lucrative utilization.

These beneficent workings of the

price system, however, are dependent upon sound money and sound public finance. If private enterprise and private thrift are to do their normal work, men must trust the money with which they do business. When prices are rising rapidly merely because an irredeemable paper money is falling in value, it ceases to be true that consumption is checked; rather, consumption increases. Consumers reason correctly that they had better spend their money today, because it will be worth still less tomorrow. It is like over-ripe fruit, which tends to spoil on their hands. Thrift gives way to extravagance. A German lady in charge of a large hospital has for a long time been accustomed to advise young women among her employees in the investment of their savings. In former years, she used to advise them to put their money in savings banks, or to buy

small bonds. During the last year, however, she has realized that such advice would be ruinous. In a very short time their principal would shrivel to a fraction of its value. Seeking conscientiously to give them the best advice she could, she finally concluded that their best course would be to buy silk stockings,—commodities of real value, which would not be imperiled by the sinking value of the paper mark.

One of the generalizations to which economists have been accustomed is that falling exchange rates tend to check imports and to increase exports on the part of the country whose exchange is weak. This generalization is true so long as a country is on a sound gold basis, and so long as the weakness in the exchange is due simply to an adverse balance of international payments. When, however, the exchange is falling merely because of the depreciation of irredeemable paper money, the situation is reversed. Importers reason that the exchange will fall still further in the future, and they hasten to bring in all they can while they can still get something in foreign markets for their domestic money.

The generalization that rising prices increase production likewise is reversed when the rise in prices is due to the falling value of inconvertible paper money. Production gives way to speculation in such a situation. Business men cannot safely make long time contracts or long time plans when they do not know within 50 per cent. what their money will be worth in six months. Laborers, investors, and active business men have seen their real wealth and real income shrivel in the course of the past few years in many of the countries of continental Europe. The men who have made great fortunes have been the

The Men Who Have Made

"The men who have made great fortunes have been the plungers and speculators, who foresaw the depreciation of their national currencies and provided for it by borrowing all they could from their banks, buying 'foreign values'; common stocks, and commodities; subsequently, as the prices of these things rose enormously in terms of their domestic money, paying off their bank loans by the sale of a fraction of what they had bought. Debts incurred in gold have been paid off in greatly depreciated paper currency to the ruin of the creditors. One recalls the picturesque expression of Andrew D. White, who, in describing the orgy of paper money in France after the French Revolution, points a vivid picture of 'debtors pursuing their creditors and paying them without mercy.'"

plungers and speculators, who foresaw the depreciation of their national currencies and provided for it by borrowing all they could from their banks, buying "foreign values," common stocks, and commodities; subsequently, as the prices of these things rose enormously in terms of their domestic money, paying off their bank loans by the sale of a fraction of what they had bought. Debts incurred in gold have been paid off in greatly depreciated paper to the ruin of the creditors. One recalls the picturesque expression of Andrew D. White, who, in describing the orgy of paper money in France after the French Revolution, paints a vivid picture of "debtors pursuing their creditors and paying them without mercy."

Urban Society Helpless

A simple, agricultural people, where each man can make a living on his own land, can go on pretty well in the absence of sound money and sound finance. The South was bankrupt after the Civil War, but the Confederate soldiers could go home and live. Some of the Balkan States today, with their simple, agricultural, self-sufficing economy, seem to be getting along pretty well, despite the demoralization of their national currencies and public finance. But a complex urban society, like that of most of Western Europe, is helpless in the face of financial and monetary disorganization. Money and finance are the nervous system of the economic organism, and when they function badly, general economic paralysis easily comes.

Paralysis is not necessarily the first symptom, however. It may easily be preceded by a feverish overstimulation, during which something which looks like a very intense prosperity goes on. We have seen a feverish, even though largely ineffective, activity of this kind in Germany. In certain other countries, where borrowed public money is being spent on a great scale, unemployment is small and great activity is going on; but in many of the former continental belligerents, consumption is outrunning production, capital is being used up, and the way is being prepared for grave disorders.

Sound money is money which has

Agricultural Distress

"Agricultural distress is not confined to the United States. Dairy interests and truck garden interests in Holland are suffering even more acutely from the loss of their German markets. In Spain, Belgium and England farmers are complaining of their difficulties and demanding assistance from the state in one form or another. Agricultural difficulties in the Argentine have been greater than they have been in the United States."

a definite, fixed relation to gold. The only way in which the relation between paper money and gold money can be made definite, is for the paper money to be redeemed in gold on demand. Sometimes a satisfactory system is worked out on the basis of redemption in gold exchange, *i. e.*, the issuing authority redeems in drafts on gold balances held abroad instead of in actual specie in the home market.

Basic Principle of Money

But the basic principle regarding money is that real money is a piece of gold of fixed weight and fineness, and that paper money is merely a promissory note—a promise to pay gold on demand. When this promise ceases to be kept, the paper money depreciates in value, and its value depends primarily upon the general expectation of redemption. Its value fluctuates with every circumstance affecting the credit of the issuing authority: rumors of war depress it; rumors regarding successful diplomatic relations looking toward peace and political stability improve it. The amount of paper money outstanding, obviously, has a very great influence on the prospect of redemption and consequently on the value of the paper money. It is significant, however, that with very slight change in the total outstanding volume of the notes of the Bank of France since the armistice, the value of the franc has varied from 5.7 to the dollar to over 17 to the dollar, and that the general level of prices in France has varied over 100 per cent. from the lowest level.

It is obvious that no programme looking to the redemption of paper

money in gold could be successful when the governments responsible for the paper money continue to spend gigantic sums in excess of their tax receipts; which means that in one or another way they are steadily increasing public debt. In theory, it is possible to distinguish between the credit of the state bank of issue which is directly responsible for redeeming paper money, and the credit of the government itself. Practically, however, no such distinction is possible when the state is far more heavily indebted to the bank than all the rest of the bank's debtors, and when the great bulk of the assets of the bank consists of the obligations of the state.

Basic To Reform

It is, moreover, impossible to suppose that a parliament or a minister of finance would permit the state to default when the state could avert default by compelling the bank of issue to print more notes and lend them to the state. Practically, therefore, the bank and the state are tied together and practically the fate of the paper currency of a country depends on the fate of the public treasury. Basic, therefore, to currency reform in continental Europe, is a reversal of the policy of the governments of spending more than their tax receipts.

The problems of reform in public finance and reform in currency are inseparably connected. The connection is, moreover, two-sided. It is true on the one hand that currency cannot be reformed unless budgets are balanced. It is true on the other hand that the balancing of budgets is difficult, if not impossible, when paper money is rapidly depreciating. The tax receipts of 1923 are, in considerable part, based upon the assessments of 1922. If, in the interval, the value of paper money has sharply fallen and prices have sharply risen, the government will be obliged to spend much more than it had anticipated, but will not find a corresponding increase in its revenues. Deficit, further borrowing,—either by the issue of bonds or of short time interest-bearing paper or of bank notes,—may thus be forced upon a government by the mere depreciation in the paper money itself.

Definite measures for financial



AMERICAN AND BRITISH DEBT COMMISSION

© International Newsreel

Members of the American and British Debt Commission which recently arrived at an agreement for funding the British War Debt. Photo shows, left to right: Sec'y Hoover; Sen. Burton; Mr. Baldwin (English); Mr. Norman (English); Asst. Sec'y Treas. Wadsworth; Senator Smoot, Sec'y of State Hughes and Sec'y of the Treasury Mellon. Standing: Undersecretary Gilbert, and Secretaries of the Commission, Christie, Doughton and Grigg.

and monetary reform on the continent of Europe have been waiting for the settlement of the reparations question and for the settlement of the problem of the Interallied debts. The finance minister of France has delayed a definite settlement of French public finances until he could know precisely what to expect from Germany and precisely what he had to pay the United States. The finances of the German Government have obviously been profoundly affected by the unsettled reparations problem.

Obviously, too, the various political unsettlements, threats of war, selfish national policies and bitter hatreds, manifest in continental Europe, have intensified difficulties in all these matters. Further, the growth of a narrow nationalism has led to the erection of artificial restraint on trade between countries, particularly high tariffs, which have in many ways hampered business activity.

Through all these causes, industry has been demoralized in continental Europe, thrift has given way to extravagance, speculation has taken the place of business, and Europe has been able to produce vastly less than she has needed for her own consumption. She has been to an

appalling extent living on credit, drawing in a surplus of goods from the outside world without paying for them; or to the extent that she has paid for them, doing so by sending gold which she could ill spare and by drawing in the capital of her former investments in the outside world.

The Reaction

The reaction of the situation in Europe upon the outside world has been very great. The first effect following the armistice of Europe's large purchases on credit from non-European countries, notably the United States, was to build up a fictitious prosperity. We were in the position of a retail merchant in a factory town, where everybody is on a strike, who can do a tremendous business—on credit. But the time comes when such a merchant has tied up too much of his working capital in selling on credit to his customers; when he looks eagerly for cash customers at greatly reduced prices; and when he appreciates that he has no interest so vital as seeing the end of the strike and having his customers go back to work so that they can make new purchases from him for cash,

and so that they can begin to pay back some of the advances he has already made them.

Industry and Trade

Apart from the disorders in credit and finance which Europe's demoralization has brought to the non-European world, is a deeper, underlying disorganization in industry and trade. When the world is in proper economic balance, production and consumption grow together. There is no possibility of a general overproduction or a general oversupply. Wool comes into the market as supply of wool, but it comes in also as demand for sugar, for cotton cloth, for automobiles, and for other things that the wool producer needs; and so with every other commodity. It is supply of its own kind, but it is demand for other commodities. In the aggregate, therefore, supply and demand are not merely equal, they are identical, since every commodity may be looked upon both as supply of its own kind and demand for other things. There is, then, no possibility of a general overproduction or a general oversupply.

There can be, however, overproduction of particular things and

underproduction of other things, creating a maladjustment which demoralizes markets and strangles production. We saw this very strikingly in the early months of 1920. With the exception of Russia, the sources of food and raw materials in the world had been little injured by the war; many of them had been stimulated. The great damage of the war was done in the manufacturing sections of Western Europe. The result was that the equilibrium between finished manufactures on the one hand, and foods and raw materials on the other hand, was upset.

Europe before the war had been the world's great center of manufacturing, and the world's great market for foods and raw materials. With her greatly reduced manufacturing output and manufacturing activity, Europe was a very poor market for raw materials. The raw material producing sections of the world,—Australia, South America, Asia, Africa, and the United States,—unable to find their usual market in Europe, sold a tremendous proportion of their raw materials in the United States. Our manufacturing capacity had been expanded during the war, but it simply could not begin to work up all the raw materials that the world was producing, or to supply all the demands for finished manufactures that the world needed in late 1919 and early 1920.

The Illusion of Scarcity

We worked feverishly and under increasing strain, with rapidly rising costs. With our increasing activity, our physical volume of production in manufacturing actually declined. The over-rapid pace reduced efficiency. Raw materials piled up in our markets and in the hands of our speculators. For a time their prices rose, under the illusion of the world scarcity of raw materials; but suddenly, early in 1920, this illusion began to be rudely dispelled and the prices of raw materials began to break violently.

What revival there was in Europe was more in agriculture than in manufacturing, and in 1920 Europe took from us very much less in the way of farm products, notably meats, than she had been taking in the later months of 1919. A large

volume of farm products was thus thrown back on our hands which we had expected to export to Europe, and the prices of farm products also broke violently.

Not Overproduction

With the break in the prices of raw materials and farm products, the producers of these things found their purchasing power drastically cut, and though they continued to need manufactured goods as much as before, they were unable to continue to take them in adequate volume at the prevailing high prices. With the world's manufacturing capacity relatively inadequate, therefore, the factories were still obliged to close and the manufacturer had a crisis also.

The trouble was not, as many seemed to suppose, a general overproduction. The world as a whole was producing far less in 1920,—and in 1923,—than it produced in 1913. The trouble was essentially a maladjustment, a relative excess of agricultural and raw material production, and a relative deficiency in manufacturing. With the crisis and depression, there was revealed also a relative excess of shipping, in view of the great decline in foreign commerce.

The world outside Europe, for the most part, has largely cleaned up the domestic difficulties which brought about the crisis of 1920. We have gone through drastic price readjustment; we have taken stock; we have eliminated weak spots in the credit system; and, in the United States, at least, have had a very substantial business revival. But there remains the great maladjustment between agriculture on the one hand, and manufacturing on the other. Our farmers are receiving for what they sell about 10 per cent. more than they received in 1913, but are paying about 69 per cent. more for what they buy than they paid in 1913.

Agricultural Distress

Agricultural distress is not confined to the United States. Dairy interests and truck garden interests in Holland are suffering even more acutely from the loss of their German markets. In Spain, Belgium and England, farmers are complain-

ing of their difficulties and demanding assistance from the state in one or another form. Agricultural difficulties in the Argentine have been greater than they have been in the United States.

The gluts in the raw material markets have been cleaned up in many cases by great reductions in output and the gradual working off of accumulated stocks. Jute production in India was cut in two in 1921. The world's output of wool has been reduced. The copper mines were shut down for a long time, and since reopening are working only at part capacity. Raw material prices have, consequently, improved, but wherever a full output has been maintained, they remain greatly depressed.

The Case of Rubber

A striking case is that of rubber, where until the recent restriction of export from the Far East, prices remained at a small percentage of pre-war prices, and where the price still remains well below the level of 1913. The price of cotton is high, but only because of the tremendous reduction in output, due primarily to the boll weevil. In general, the raw material and food producing world is suffering either from low prices or reduced output. Manufacturing, after prolonged depression, during which accumulated stocks were worked off, is now proceeding at a rapid pace, but with serious uncertainty as to how far it can go in the face of the difficulties of the agricultural population, the copper producers and other interests.

As this is being written, events are moving rapidly. Predictions regarding politics and diplomacy might easily be disproved overnight and any definite plan for political co-operation in straightening out Europe's affairs might well be out of date before it is printed. It is possible, however, to lay down certain general principles which should be observed in efforts to rehabilitate Europe:

The Hope of the Future

1. Free play of private enterprise is the great hope of the future. This means, on the one hand, that governments should withdraw as

rapidly as possible from the practice of bread subsidies, unemployment doles, public operation and control of industry, and the like. It means, on the other hand, that many governments must perform far better than they have been performing what is perhaps the greatest economic function of government,—the provision of sound money as a basis for safe business.

2. Economic considerations must be given priority over political considerations, and steps toward rehabilitation must be based on a realistic summing up of assets and liabilities.

3. Patch-work solutions dealing with only one or two elements of the problem are unlikely to be successful. Just because reparations and Interallied debts, public finance, currency reform and so on are really tied together, it is necessary that we should undertake to accomplish all of them in one comprehensive plan if we are to accomplish much in connection with any of them.

A Comprehensive Plan

4. A comprehensive plan should undertake to accomplish the following things:

(a) The restoration of the moneys of continental Europe to a gold basis. Since this obviously cannot be done for most of the former belligerents at the old gold pars, it is necessary that new and much lower gold pars should be established, at which gold redemption can be speedily begun and certainly maintained. In the case of those currencies whose values have approached the vanishing point, even more drastic measures may be necessary.

(b) Public finances must be reformed by such drastic increases in taxes and such radical reductions in expenditures as will enable the governments to pay their way without further increase in domestic debt. Floating debts should be funded into long time issues.

(c) A workable adjustment of the reparations problem based on economic realities is essential.

(d) Artificial trade barriers must be greatly modified.

(e) The governments of Great Britain and the United States, in consideration of radical reforms on



MILO D. CAMPBELL

Resident of Coldwater, Mich., appointed the "Dirt Farmer" member of the Federal Reserve Board

the continent of Europe, can well afford to reduce greatly or even cancel the debts of their continental Allies.

(f) The bankers of the United States, Great Britain, Japan and perhaps other non-European countries, in consideration of financial reforms in continental Europe, should, and doubtless would be ready, to place with the investors of their countries substantial blocks of continental securities to provide necessary working capital, to facilitate the financial and currency reforms and to assist in industrial revival on the continent of Europe, taking great pains that no part of the new loans be used for non-essential purposes.

Would It Be Well?

"We believe it to be true that the people of this country are not convinced of the necessity of cancelling any part of the foreign indebtedness, and there is the same justification for their attitude that there is for the misgivings of the

debtor governments about entering into more specific agreements. The justification on both sides is that none can foresee what the future has in store. The debts of England one hundred years ago seemed at the time to be of crushing weight, but the development of industry soon made them of negligible importance. Very likely that will be true again. And who knows what future wars may come? Would it be well queries the National City Bank of New York in its review "to raise the presumption that debts created in war time will not be paid?"

James E. Brock, secretary of the Mississippi Valley Trust Company, St. Louis, since 1902, died suddenly of heart disease during a conference in the directors' room of the company, January 13, 1923. In May, 1891, Mr. Brock became associated with the Mississippi Valley Trust Company and was elected assistant secretary in 1897 and secretary in 1902.

The Farmer and a "Living Wage"

By FORREST CRISSEY

Agriculture the Greatest of All Industries. As Farmer's Buying Power Goes Up or Down the Welfare of Others Who Have Demanded a "Living Wage" Is Improved or Depressed. Average Earnings of Railroad Shop Worker Are Eight Times The Earnings of the Average Farmer.

BANKERS and economists who are readers of the JOURNAL do not need to be told that the minds of the real leaders of finance, industry, commerce and transportation are profoundly disturbed by the problem of the American farmer and his immediate and future prosperity. Repeatedly this fact has been emphasized by articles in this magazine—and very able ones, too, if I may be permitted to be the judge—considering the subject from its most important angles. But just how general and profound this disturbance is cannot fully be appreciated without personal contact with it as it is felt in the Middle West, its storm centre.

A few weeks ago I attended a luncheon in Chicago at which about fifty men were present. The number of multi-millionaires—real ones!—at the table made the gathering look like a session of the Ways and Means Committee of the Middle West. Some of the biggest bankers, merchants and manufacturers in the West were there. Also a number of outstanding economists, editors and big farmers fringed the centre-piece of solid capital.

The only subject discussed at that luncheon was:

What can be done to help the farmers to secure at least a living wage?

Later one of the leading capitalists of the Pacific Coast said to me:

"Just now we are going into a period of recovery. Business is showing material improvement. Apparently many feel that the after-war deflation adjustment has been made and that this recovery is at least relatively permanent. But, as I see it, those who look at it in this way fail to consider the most important element in the situation: the fact that the farmer is the biggest buyer of commodities in America—speaking in vocational terms—and that he has not made a living wage

for about two years and is not making it now. Of course this means that his buying power is depressed—way out of proportion to that of the wage workers in other lines of industry. This situation will continue for a time—but it cannot go on for long. The farmer is rather a slow fellow of the long-suffering sort. But he can't live on air and expectation alone. As a rule he is a good economizer. When he is

Farmers and Others

"The average railway worker cherishes the conviction that employees in his line outnumber those in any other line. In 1921 there were 1,580,000 railway workers in the country—as against 10,674,534 employed on the farms. The average steel mill hand holds the opinion that the iron and steel industry tops all others in giving jobs to the workers. But what are the facts? The total number of men employed in iron and steel mills and plants making iron and steel products—like machinery and hardware—is but 1,585,712. In short, more than one-fourth the persons engaged in gainful occupations in this country are on farms."

running short he cuts down on buying. That's what he's doing now. When this cut finally makes itself felt in full force in the stores, the factories, the plants and the mines of the country, and in the offices of the transportation companies, the industrial workers will begin to wake up and wonder what has struck them. Possibly we may not get the full shock for two years; possibly it will hit us by next fall. But when it comes the industrial worker with the milk-fed pay envelope is going to have something to think about. And so will business of every sort. Why not do some of that thinking beforehand while it

has a chance of doing some good in a practical way? Until at least a modest prosperity is restored to the American farmer so that he stands on a wage-earning basis somewhere near that of the wage worker in industry any business recovery is bound to be ephemeral."

Still later I attended a meeting of editors connected with the farm press. Again this was the only subject discussed. It's in the air, everywhere. It's the big subject on the mind of the thinkers in America today. There is a widespread recognition of the fact that the biggest educational job up to the leaders of thought in this country for the year of 1923 is that of teaching these people—especially those in towns and cities—precisely what relation the farmer and his prosperity have to their personal prosperity—to the size and permanency of their pay check or profit account.

Ask the average wage-worker in the mine, the steel mill, the clothing or the railroad shop for his idea of a farmer and his reply will be substantially this:

"An unorganized worker doesn't know any better than to put in about five hours a day overtime just for the exercise. He raises things for the rest of us to eat—and never strikes!"

Until this idea is removed from the mind of the organized industrial worker and supplanted by the understanding that when the farmer cuts buying down to the bone his own pay-envelope is going to suffer a collapse, the great educational task of the moment will not really be under way.

Before raising the practical question: "What are you going to do about it?" take a careful look at the farmer in the role of a buyer and consumer of commodities and service—of things and labor. Forget the farmer as a producer of food materials and think of him only as

a buyer, an active supporter, through his purchases, of industry, transportation and commerce.

Farmers' Purchases

In the files of one of the largest manufacturing corporations of the country are scores of sheets of figures prepared for the information and guidance of its officers and directors in their decisions respecting output, expenditures and policies. Therefore these figures carry a heavy burden of responsibility. They all relate to the farmer as a buyer and they were prepared by a man with a long record as a railway traffic official. This same man had the difficult job of challenging and sifting all the findings and figures which went into the remarkable report on Transportation put out by the Joint Congressional Commission of Agricultural Inquiry. These facts about the man behind the figures would indicate that they command confidence. They are responsible figures.

In them the purchasing needs of the farmers of the United States are put at six billion dollars, factory value not retail prices. This analyst finds that the farmers' purchases pay the wages of 797,584 workers in industry and that these wages amount to \$855,245,869.

Lack of Understanding

Suppose that every industrial wage worker understood and appreciated these facts—wouldn't that understanding have a strong tendency to alter his attitude towards the farmer? Undoubtedly it would. And that would be a decided gain. It would establish a far better basis for practical action than now exists. So long as the industrial wage worker knows nothing and cares nothing about the farmer he is in a poor position to grant the farmer any consideration on the score of "a living wage." But when the organized wage workers in industry understand that the farmer of this country does more to keep the wheels of industry turning and the pay checks moving than do the men in any other industry or line of human activity, he begins to take on importance and to look very much like a silent employer instead of a remote and inconsequential figure in

the rural landscape. Such an understanding makes the farmer almost as well worth listening to as the silver-tongued labor leader or the chief of the brotherhood. When the industrial worker gets a grasp on the fact that farming as an industry is four times greater than the railroads of America so far as the capital invested is concerned, his respect for the magnitude of the farming industry is bound to be somewhat increased.

His Average Earnings

The average railway wage worker cherishes the conviction that employees in his line outnumber those in any other line. In 1921 there were 1,580,000 railway workers in this country—as against 10,674,534 employed on farms. The average steel mill hand holds the opinion that the iron and steel industry tops all others in giving jobs to the workers. But what are the facts? The total number of men employed in iron and steel mills and plants making iron and steel products—like machinery and hardware—is but 1,585,712. In short, more than one-fourth the persons engaged in gainful occupations in this country are on farms.

In these statistics I find a little nest of figures which should be highly illuminating to any man in industry—whether as employer or employee—who is capable of doing any thinking for himself. There are 121,040 industries which depend upon the farmer for their raw materials; they employ 3,074,798 wage workers to whom they pay \$3,091,157,771 in wages. The output of these industries is valued at \$27,560,583,389. These figures should indicate to any industrial wage worker that there is a direct and vital connection between the farmer and his own pay check.

Now for a look at what the farmer gets for his labor, risk, management and investment. Where does he stand with relation to workers in industrial lines? In 1921 the average return of the farmers of the United States for labor, risk and management was \$183! At 5 per cent the interest on his investment averaged \$610—making a total of \$793. But the only figure calling for a comparison with the wages of the industrial worker is \$183.

Shop Workers' Wages

In 1921 the average earning of the railroad shop worker was \$1506—or more than eight times what the average farmer received for his labor. The miner did still better, scoring an average of \$1,779. And yet we heard considerable from the railroad shop worker and the miner about the fact that they were not being paid a living wage. And in connection with this comparison please remember that the farmers' \$183 was for "risk" as well as for labor. If he could only eliminate the element of risk from his operations it would mean a lot to him. He never knows whether the "ghost is going to walk or not." His pay check is likely to be a red ink assessment.

What's to be done about making it possible for the farmer to receive a living wage? That's the practical question.

A Hopeful Sign

It is decidedly a hopeful sign that the real leaders of farmer thought have no expectation of assuring the farmer a fair degree of prosperity by means of legislation. They frankly admit that it cannot be done that way because the trouble is an economic one. Legislation is needed to remove certain handicaps under which the farmer is laboring—but that will not restore the balance between the farmer's reward and the industrial wage worker's pay check. It will merely help a little. The farmer needs all the little helps he can get. And he is in a position to get about what he insists upon in the way of legislation from the present Congress, too. If legislation could insure his prosperity he soon would be on the High Road.

In all the earnest discussions which I have heard on this subject—and that's a plenty!—two important considerations seemed to be uppermost:

1. A decreased production of farm products.

2. A readjustment of freight rates to pass the burden of recent increases to manufactured goods thus giving the raw materials from the farm a chance to get to market at reduced cost.

Cutting Down Production

As to the first consideration, there is undoubtedly a strong inclination on the part of farmers who intend to continue in production to cut down its volume. What is perhaps more to the point is the fact that thousands upon thousands of farmers have lately quit farming and gone after jobs in industry. The desertion from the ranks of farmers since 1920 has been on a wholesale scale. But even in 1920 there were 1,573,543 fewer people on the farms of this country than in 1910—this in spite of our huge population increase.

No arbitrary agreement among farmers to cut down farm production is necessary—although sentiment for such a movement is undeniably strong. The farmers will not have to call a concerted production strike to reduce production. The matter is taking care of itself on an economic instead of an organization basis. Thousands of farmers are simply leaving the farms and getting industrial jobs requiring neither risk nor investment.

Waiting On Europe

This process of farm desertion is bound to continue until Europe is again a good and active buyer of American farm products. If there is a well-informed business man who expects this to happen soon enough to make any great difference to most of the men on farms today he has failed to make his voice penetrate through the prevailing cloud of export gloom. Thinking farmers have a settled conviction that it will be a long time before Europe will afford him much nourishment as a customer for farm products. He is not counting on that outlet and his mind is decidedly busy with the problems of decreased production. He is inclined to feel that he has been very busy "killing the job," as the union worker put it, and that it is about time for him to pass up to the industrial worker the same brand of output restraint that the organized worker in industry has been passing to his employer. The farmer is thinking of "slowing down" too.

Respecting the readjustments of freight rates to shift some of the

burden now resting on raw materials from the farm to the shoulders of fabricated products carrying the cost of industrial labor, the farmer can and will exert a powerful pressure and will probably secure substantial results.

More Thought To Marketes

There is one outstanding tendency among all farmers—that of giving less thought to production and more to marketing. They have acquired a stubborn conviction that somehow they are going to have more to say than heretofore about the prices at which they sell their products. Some have rather wild theories as to how this may be accomplished. But there is a strong mass determination to achieve this end by any and every means possible.

For example, the American Farm Bureau Federation, or one of its subsidiary organizations, not long since applied for membership on the Chicago Board of Trade. The application was denied which looks to the uninformed outsider like a very poor piece of business policy on the part of the Exchange. The Farm Bureau Federation has a long arm and is likely to make its resentment felt sooner or later. It thinks the farmer is quite as much entitled to have a little to say about the price of wheat as the LaSalle Street speculator.

Leaders of big business have been keenly alive to the gravity of the farmer's situation. Bankers and economists in particular have not only realized it long since but they have applied their energies and influence to awakening little business to a realization that the American farmer must have at least a "living wage." About the only member of America's great working family who appears blissfully ignorant of this fact is the typical industrial worker whose thinking is apparently done for him by his organization leaders, his business agents and higher officials of his union. But he is going to be educated along this line later if not sooner. If he can make it sooner the medicine will be much easier to take.

Co-operation

The committee of bankers, business men and economists appointed

by the Chicago meeting to which I referred in the beginning of this article has been able to report definite and decided progress. In the month of January alone more than fifty commercial clubs have held meetings with farmers for the purpose of arriving at a better mutual understanding and of taking certain practical steps in the line of making it a little easier for the farmer to get a living wage.

The committee is also acting with the farm bureau organization and the County Agricultural agents all over the country—establishing a hand to hand contact with the farmer which is calculated to reach into every agricultural township. The committee does not claim that it knows just how to give the American farmer a "living wage" at the present stage of its activities, it considers itself very largely a fact-finding body. It is out after the facts and when it gets them it proposes to govern its activities accordingly.

Business Changes

At a meeting of the Board of Directors of the Bank of Pittsburgh N. A., held January 15, Sidney B. Congdon was elected vice-president in charge of its Credit Division, succeeding E. M. Seibert, who has resigned on account of ill health. Mr. Congdon, who assumed his new duties January 17, has been National Bank Examiner in Pittsburgh and Cleveland districts for the past three years.

John B. H. Dunn has been elected vice-president and director of the National Bank of Baltimore. Until recently he was identified with The Merchants National Bank as vice-president. Other newly appointed directors are: Frank J. Caughy, Caughy & Co.; Wm. J. Delcher, cashier; Theodore N. Austin, assistant cashier.

Elmer T. Eshelman, who has been first vice-president of the First Trust and Deposit Company of Syracuse, has been elected president of the City Bank Trust Company of Syracuse, to succeed Stewart F. Hancock, who becomes chairman of the Executive Committee.

At the annual meeting of The National Shawmut Bank of Boston, Thomas Hunt, of the law firm of Gaston, Snow, Saltonstall & Hunt, was added to the board of directors. Edward A. Davis, an assistant cashier of the bank, was elected a vice-president, and George E. Pierce, of the Credit Department, was elected an assistant cashier.

What is "Sound Currency?"

By H. PARKER WILLIS

Editor Journal of Commerce, Formerly Secretary Federal Reserve Board

Some of Those Who Would Mislead the Public Want A Constantly Appreciating Currency Which Plays Into the Hands of the Seller of Goods To the Detriment of the Producer. "Sound Currency" With Which the Poor Man Can Purchase Nothing.

PERHAPS there is no subject in whose name more crimes against truth have been committed than that of "sound currency." The term has been employed over and over again and has come to mean almost anything or nothing. But because it once meant something it is always resorted to by demagogues. At the present moment there seems to be a danger that it will be used by a potential presidential candidate as representing the "platform" upon which he expects to "run." How carefully does the average man or even the average banker consider what is desirable in a currency? Perhaps hardly at all, and yet there it no question that more nearly and directly touches the immediate welfare of every class in the community.

Purpose of Money

To tell what sound currency is one must first have an idea of the purpose of currency or money. That purpose is primarily to exchange goods and to furnish a standard of deferred payments which may be employed in giving back to lenders the control over goods which they have advanced at an earlier date. Money thus has one primary function as a means of exchanging goods and another as a means of measuring the value of goods. A good currency is a currency which serves as a good substitute for money; as money has just been described.

It would seem as if this definition of money and currency ought to be perfectly comprehensible, permitting of no mistake. But in fact demagogues and those who are disposed to mislead the public for various ulterior reasons have succeeded in disseminating an entirely different view of the purpose of

money. Some of them contend that the soundest or best currency is that which is so arranged as to bring about a "fair" redistribution of wealth. They want a constantly appreciating currency—one which keeps playing into the hands of the seller of goods by enabling him to count confidently upon higher prices in terms of money so that he pays the producer from whom he has obtained them less and less. It is a strange thing that this kind of currency is often highly praised or favored by the producer himself, notwithstanding that he is the greatest sufferer from it.

"Labor Time"

There is another popular view of sound currency which aims to base it upon "natural products" or "natural forces;"—usually, it is true, specifying products or forces which have been monopolized or can be controlled by the advocate of such currency. Thus from time to time there have been schemes to issue a currency based upon or protected by farm products stored in warehouses or occasionally representing "units of energy" or horse power. The rulers of Soviet Russia at one time attempted to introduce a currency representing "labor time," each man receiving a check representing the number of hours of time he had put in at work while goods themselves were to be valued in terms of hours of production time. Thus one man who put in an hour's time in street cleaning received the same control over goods as he who put in an hour's time at surgery. The theory was that this kind of "sound" currency enabled the "poor man" to get a larger supply of goods. It was a means of realizing social justice.

Perhaps this and other similar

sound currency experiments would not have worked out as they did if there had been some means of insuring a continuous supply of the right kind of goods. The trouble was that currency issues did not manufacture goods, and that when those who could perform a certain kind of labor were not paid in proportion to their effort they stopped making goods. So it was not very long in Russia before the sound currency which was issued in favor of the poor man had brought it about that the poor man could not buy anything with the currency. This was an unfortunate kind of "soundness." We do not want something like it in the United States today, yet very similar proposals are now being made in a good many quarters that ought to know better.

Not Interchangeable

The terms sound money and sound currency are frequently used as if they were interchangeable or identical, but that is very far from being the case. By sound money is meant, as the term is currently used, money which satisfactorily represents and holds its value or which results in doing substantial justice between the individuals who use it. These individuals are usually either purchaser and seller or borrower and lender; and soundness in money is realized or attained when its use brings about equitable relations between the two parties to the transaction. Such relations do not necessarily imply absolute stability, although it is frequently stated that a stable money is the only equitable or just money, so that various projects for "stabilizing" the dollar are current and have attained a considerable following. By absolutely stable money is meant money which retains substan-

tially the same power to command commodities over reasonable periods of time. This, however, may or may not be an absolutely equitable or just condition of affairs. If wages, for example, are fluctuating rapidly or other conditions of production are not stable;—if for example the total productiveness of society as a result of the application of labor and capital is greater or less, per capita or per unit of investment, it may well be doubted whether a "stabilized dollar" will be a just dollar. If it is not just it cannot be spoken of as a "sound" or honest dollar. Soundness or honesty in money therefore is found in the maintenance of substantially equitable relations between the parties to the transactions, as already stated.

The Gold Dollar

In common experience thus far the dollar (or money) which has been found to be soundest or most equitable has been the gold dollar, not because it has maintained its stability, for its variations in value (power to command commodities) both during and since the war have been tremendous, but because, on the whole, a payment made in gold has represented the form of transfer which came nearest to maintaining relations between buyer and seller or debtor and creditor which were most nearly satisfactory to both parties. The fluctuations, injurious as they were, were probably not greater than those in other means of economic measurement and in most cases not as great, while the convenience of the parties to the transactions was more closely served by the payment of gold or its equivalent, because it was more universally recognized or accepted than any other medium was or in the circumstances could have been.

The substitution of some fictitious unit of value such as that which was advocated in recent discussions of the payment for one of the Government's war nitrate plants, when it was suggested by a "business" man that the best way for the public to buy and pay for property was simply to print an issue of legal tender paper currency, would simply give power to the politicians who now misgovern the United States and almost every

other country to shift from the gold standard of value to a new government legal tender paper standard.

Tried in the Civil War

That experiment was tried during the Civil War with disastrous results, the paper immediately depreciating to a third of its value or thereabouts. It has been tried in various European countries of late with equally or more disastrous results. It does not much matter what is "behind" such legal tender paper "money," because it has lost the fundamental attribute of money, which is that of not requiring to be redeemed. Gold has its own value due to the fact that the public uses it in certain monetary and other ways and is therefore willing to receive it and to give goods in exchange for it. Paper has no value except as it represents a possible promise of the Government to pay gold or some other medium of exchange in the future. Very much the same may be said of the proposals to issue labor time checks or to print currency protected by farm products, which would be "sound" because representing "natural products" or articles that are of actual use. In such cases the recipient of the paper becomes, in fact if not in theory, the owner of a certain share of farm products or whatever it is that is carried "behind" the paper so issued and he has to take his risk of the fluctuations in the power of such commodities to command others, since only in rare instances will he himself want to consume these particular products.

Sound currency is easier to define than sound money because it is simply currency,—that is, a money-representative—which is convertible into sound money. Assuming that it is so convertible, its own elements of soundness are found merely in the arrangements that have been made to assure such convertibility. Our Federal reserve notes are today sound because they have behind them enough gold to insure immediate exchange of the currency for a form of money which is at all events the best and most available that is known, being so considered by the mass of the population of the world. Our national bank notes are generally considered sound, al-

though in a lesser degree, because it has always proven possible to convert them into the ultimate standard of value—gold. Soundness in currency is found, therefore exclusively in the ability on the part of its holder easily and without expense to himself to exchange his currency when he desires it for an equal amount of what has been generally agreed is sound money. That is a sound currency which is so convertible on demand without cost, while unsoundness is found in a currency in the degree in which there is difficulty or expense in bringing about such conversion. A sound bank note is one whose issuer has made satisfactory arrangements for converting the note into sound money in the way already described.

Must Be Acceptable

"Soundness" in money or in currency is thus seen to lie in the fact that the money or currency thus spoken of insures to the possessor of it as satisfactory a way of meeting his indebtedness and controlling or exchanging goods as is known to the community; and it is essential to this definition that money to be sound should be money that is generally regarded as acceptable without the necessity of a legal-tender law to compel its use. It must be the voluntary choice of the commercial community as a medium of exchange, and means of settling debts.

This view of the matter throws an unfavorable light upon the schemes of various politicians and presidential aspirants for the substitution of monetary media of their own in place of the media which have been selected by the world at large as, all things equal, the most available or best. What they want is the use of a money medium which is easily obtained or controlled by themselves or by some small group whom they represent. In order to mask this purpose they frequently speak of gold or other forms of existing money as being easily "monopolized" or as being controlled by some "trust." No statement could have less foundation, particularly in view of the fact that we have in the United States today, and (omitting a short period during the late war) have practically con-

tinuously had for many years, forms of currency and money all of which could be converted without trouble or cost immediately, on demand, into gold. There has never been any question in recent years about such convertibility, while on the other hand the fact that prices have steadily risen, with the exception of the brief period of reaction from the extreme high post-war "peak,"—shows that there has been no capacity on the part of any element in the community to "control" gold in the sense of making it scarce or in other words of enabling it to purchase a larger amount of commodities. If any "trust" has sought to accomplish such a result by monopolizing gold it has signally failed of success.

The fact that this term "sound currency" or "sound money," as just seen, has for many years past been used in an indiscriminating way as meaning simply the form of money or currency which was desired or demanded by the individual who was using the term, has given the expression a suggestion of hypocrisy. This has become greatly exaggerated by reason of the current effort of various recent advocates of money and credit nostrums to apply the term to their own favorite schemes. The time has come when the public at large ought to refuse to be deceived in any such fashion. They should demand an exact definition of soundness in every such case and should, moreover, insist upon hav-

ing it recognized that the established idea of soundness as applied to media of exchange is ability to do justice between the parties to business transactions. Such justice, like all justice, is never more than measurably secured, but it is most nearly approached when those who are entitled to money receive that form of money which at the time is most generally and universally regarded as a means of buying goods or satisfying debts. "Reform" schemes for money issue put forward by individuals are almost necessarily unsound, since they do not represent any consensus of opinion and afford no assurance of giving to recipients of money anything that they or anyone else wants or can use.

New Officers

Four new officers were added to the official staff of the Commercial National Bank, Washington, D. C., recently when the new board of directors organized for the current year. They are: Hayden Johnson, general counsel, who was elected to fill the vacancy caused by the death of the late Charles Cowles Tucker; T. Blackwell Smith, assistant cashier; Frederick H. Cox, assistant cashier, and Alexander R. Varela, assistant cashier. The other officers were re-elected as follows: R. Golden Donaldson, president; Harrington Mills, first vice-president; James B. Reynolds, vice-president; James H. Baden, vice-president and cashier; Laurence A. Slaughter, vice-president; Herbert V. Hunt, assistant cashier; J. Fendall Cain, assistant cashier; Robert A. Cissel, assistant cashier, and Walter J. Harrison, assistant cashier.

Convention Calendar

DATE	ASSOCIATION	PLACE
Feb. 22	Vermont	Montpelier
May 3-5	North Carolina...	Pinehurst
May 15-17	Texas	Dallas
May 22-23	Missouri	—
May 23-25	Pennsylvania	—
	Atlantic City, N. J.	
May 23-26	California	Long Beach
May 24-25	Kansas	Hutchinson
May 24-26	Virginia	Richmond
June 11-13	New York	—
June 15-16	Utah	Logan
June 21-23	South Dakota...	Rapid City
June 26-27	Illinois	—

Unsound Money

While we can say without hesitancy that the business and financial systems of the nation are in as sound a condition as at any time in our history, the attitude of large groups of people in some parts of the country toward unsound money agitation cannot be ignored. Overconfidence in prosperity that obscures this menace may result in the destruction of the prosperity that undoubtedly lies ahead if we maintain our financial balance.

In the middle western states, the growth in unsound money doctrines, and unwarranted attacks on the Federal Reserve System which is the bulwark of our financial stability, are cause for serious consideration and action.

The staunchest business system imaginable can be undermined by unsound money and unsound banking theories. If they gain a foothold among the people, under the guise of measures of social justice, no business system is safe.

We have seen the harm this can do in this country in previous periods of agitation. We see the harm it is doing today in other nations. The greatest social justice that can be established is through the maintenance of sound business.—
John H. Puelicher.

The Institute Convention

THE twenty-first annual convention of the American Institute of Banking will be held in Cleveland, Ohio, on July 16, 17, 18, and 19, 1923. While the convention is always an occasion of utmost importance to every one of the more than 53,000 members of the Institute, this year it takes on added significance from the fact that it will mark the twentieth anniversary of the first Institute convention, which was held on September 18 and 19, 1903, in the same city in which it will convene next July. At that first convention were assembled many young men who today occupy positions of trust and authority in the banking affairs of the nation and in the executive and administrative bodies both of the Institute and of its parent organization, the American Bankers Association.

David C. Wills, Chairman of the Board of the Federal Reserve Bank of Cleveland, has been appointed to head a committee of Institute "pioneers" whose task it will be to insure the attendance at the coming convention of as many as possible of the delegates to that original, historical gathering. It will be the privilege of the President of the American Institute of Banking, Carter E. Talman of the American National Bank of Richmond, Virginia, in which city the Institute was born more than twenty years ago, to preside at this anniversary meeting and to point out to all the banking profession the tremendous progress that has been made by the Institute since those early days.

Twelve Banks Signed

Community Advertising as Illustrated by a Campaign in Memphis, Tenn. in Which All the Banks of the City Joined. The Plan Gives the Banking Appeal Larger Space at Less Cost than is Possible When Each Carries on Its Own Campaign. Concerted Action Eliminates Waste.

TWELVE banks of Memphis, Tenn. have been running a joint or community series of advertisements in the newspapers of their district, thereby getting advantages which seemingly would not accrue by individual effort.

Obviously twelve banks uniting in an advertising campaign, telling the story of thrift and of commercial banking, not as it applies to one bank but as it applies to all the banks of the community, are pretty sure to create a new degree of confidence.

It is good that the public have full confidence in your bank but it is better that it have confidence in all the banks, for that attitude on the part of the public is good for the business of the city, and may be considered as a form of insurance as well as assurance.

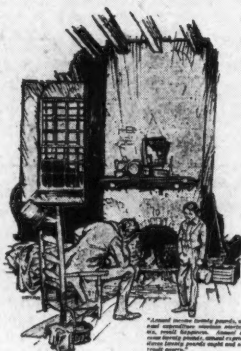
Whatever may be the disadvantage of club or community advertising, its mere attention value is as a rule likely to give to banking a new advantage, because the distributing of the cost makes possible larger space at lesser expense to the individual bank. The greater aggregate appropriation likewise

opens the way for placing the work of preparing and placing the series in the best available hands. Naturally it follows that the man selected will under such circumstances make every effort to produce the best of which he is capable. He will bend his energies to the end that his banks may have the benefit of all the experience available on this

particular kind of advertising. He will regard his appointment as an opportunity.

With the larger space and the larger appropriation it naturally follows also that art work will become a feature of such a series—

Why banks solicit small savings accounts



OCCASIONALLY we find that some people would like to have a bank account for the purpose of saving money, but they hesitate to come in and open the account, because of the mistaken notion that the bank will look down on small accounts.

"SMALL" is a relative word. To some people \$25 is a small amount to deposit, and to others even less than \$100 is a small amount, considered as a bank deposit. But let us make it clear that no one in this community who has \$1 to deposit either as a starter on, or addition to, a savings account need feel any embarrassment or hesitancy in offering the deposit to the savings department of any of the undersigned banks. On the contrary, they can depend upon a welcome, for our Savings Departments were organized and are operated for the purpose of attracting deposits of this kind. We could cite many accounts which are of substantial proportions today that began with \$1.

BANKS are interested in making every adult in the community a bank depositor. They know "Rome was not built in a day" and that "Big oaks from little acorns grow." They realize that often the wage earner has but little to spare, and so they have arranged to accept as low as \$1 as the initial deposit on a savings account or as an addition to any deposit already made. The undergarbed banks pay interest at the rate of 3% per annum, compounded on the first of January and July in each year.

tages is that of being able to turn all solicitations for business into one office where one person is free to decide things on their merits. With such an officer, especially if he happens to be detached from banking, solicitations in behalf of trivial and wasteful media are fruitless.

In addition to the actual saving of money the time of busy men is thus saved.

At least once in recent years it happened in a certain city of the United States that the running of large display advertising in newspapers in behalf of individual banks not only lost its appeal but was actually regarded by a few as a mark of suspicion. There is no chance of any such construction being placed upon full page advertising when all the banks of the city unite in the campaign. Then the public knows at a glance that the advertising is costing the individual banks less than do the ordinarily separately-conducted campaigns.

There is no doubt that intelligently planned advertising on behalf of all the banks of a city may with proper engineering

There are many things to commend it but if nothing more could be said in favor of this plan than that it saved the effort and annoyance of combating the waste, community advertising would still have something worth while to its credit.

(Concluded on page 546)

You and Your Bank

Most of a series of talks, *1994-1995 Understanding* is hands-on designed to take the "Reality Out of Banking" and to make you realize that we are striving to liquid our business on your friendship, whether or not you are once a hand dispenser.

Understanding must precede *Friendship*, hence we want you to understand our true solution to the economy, and the business model which we operate.

The next in the series, *"Why Exchange Charge Are Necessary"* appears in this paper next Wednesday.

WHERE the depositor will agree to leave funds of \$500 or more undisturbed for a period of 60 days or longer, on time certificates of deposit, the undersigned banks will pay 4% per annum, compound interest, issuing their certificates of deposits there-
 to.

LIKE everything else, the savings account, if it is kept it resolutely and on a systematic basis, that is, a certain percentage of monthly or weekly earnings, and considered as a bill that must be paid, rather than as a luxury you are allowing yourself, will prove necessary to bigger things for you. It will make possible a home of your own, an education for your children, better things for your family, bigger opportunities for yourself. Note the table here-with showing what small monthly deposits on a persistent basis will accomplish, aided by 3% per annum compound interest:

WE SOLICIT small savings accounts, because we know from experience that the man or woman who learns to save systematically grows financially and becomes a larger depositor and patron of the bank's facilities.

The following figures show the result of a fixed monthly savings, plus interest at the rate of 3% per annum compounded in January and July.

Quarterly Year	T ₁ Year	T ₂ Year	T ₃ Year	T ₄ Year	T ₅ Year	T ₆ Year	T ₇ Year	T ₈ Year
3	113.01	132.89	194.37	238.61	267.37	205.35	213.73	619.53
4	130.73	104.64	308.89	217.3	278.78	333.58	738.48	239.24
5	188.44	335.89	321.76	384.88	667.37	542.43	619.88	699.89
6	378.98	447.37	647.87	708.13	904.38	1285.17	1231.91	1399.83
7	685.49	788.49	875.33	1158.08	965.18	973.77	1035.88	2099.81
8	1188.73	1288.73	1377.37	1658.08	1478.13	1486.73	1548.87	2798.87
9	1642.63	1742.63	1831.33	2252.64	2052.64	2061.33	2123.83	3498.66
10	2483.16	2583.16	2672.81	3294.17	3092.16	3100.81	3162.81	5097.53

STICK
to this rule:
Save a part
of every
\$ you earn

BANK OF COMMERCE & TRUST CO.
CENTRAL-STATE NATIONAL BANK
COLUMBIA SAVINGS BANK
COMMERCIAL TRUST & SAVINGS BANK
FIRST NATIONAL BANK
GUARANTY BANK & TRUST CO.

LIBERTY SAVINGS BANK & TRUST CO.
MADISON BANK & TRUST CO.
MANHATTAN SAVINGS BANK & TRUST CO.
NATIONAL CITY BANK
NORTH MEMPHIS SAVINGS BANK
UNION & PLANTERS BANK & TRUST CO.

Copyright 1922, M. F. O'Callaghan

NEWSPAPER PAGE OF COMMUNITY ADVERTISING

an aid to advertising not to be had when the average bank of the average city carries on its publicity in its accustomed way, for too often it happens that the advertising when done individually is "wished" upon someone whose routine of banking duty leaves him little time for creative work.

Among the less obvious advan-

Association Aid for Farmers

AS part of a plan for expanding its activities in promoting the mutual interests of farming and banking, the Agricultural Commission of the American Bankers Association has appointed as director of the commission, Prof. D. H. Otis, who has lately held the post of Assistant Dean of the Wisconsin College of Agriculture.

There has also been appointed an outstanding group of agricultural experts to serve as an Advisory Council to the Agricultural Commission. They are President Wm. M. Jardine of the Kansas State Agricultural College at Manhattan, Kansas; Dean Wm. R. Dodson of the College of Agriculture, Louisiana State University at Baton Rouge, La.; and Dean Harry L. Russell of the College of Agriculture, University of Wisconsin, at Madison, Wis.

The broad purpose of the Commission's work is clearly set forth in the words of Burton M. Smith, president of the Bank of North Lake, Wisconsin, who is chairman of the Commission, when in addressing the Administrative Committee he said:

"The underlying endeavor of this Commission must continue to be a better understanding and a greater co-operation between the bank and the farmer. The banker knows how to run his bank, but often does not fully appreciate one important source from which he obtains a large amount of the money with which he conducts his business. This is particularly true of the city banker. City banks have country correspondents from whom they receive large deposits. These deposits come primarily from the farmer.

"We recommend that the Agri-

cultural Commission have its appropriation sufficiently increased so as to enable it to employ a paid agricultural expert, who will be prepared to meet with each commission member in his own district, for the purpose of conferring with the presidents, secretaries and chair-



PROF. D. H. OTIS

Director of the Agricultural Commission of the American Bankers Association

men of the Agricultural Committees of the states comprising the districts; this to be the means of obtaining concrete facts as to the needs in each Federal Reserve district.

"This Director should be a practical agricultural educator who is ready to do more than desk work. It is the personal touch that brings results. If need be, the country banker must be met in his own bank and the farmer in his own field. Antiquated methods for producing crops are no longer profitable to the farmer. He must be abreast of the times. The Agricultural Director must be both an educator and a business counsellor.

"He should be a man of sufficient personality to be able to establish productive points of contact with such organizations as the United States Department of Agriculture; the agricultural colleges; the heads of agricultural associations; the heads of farm equipment manufacturing associations; state bankers' committees; farmer-banker committee; the packing interests as users of farm products and allied business houses; the Commission of the Great Lakes Waterway; agricultural publications; with those handling the railroad problems of the farmer; legislators interested in the establishment of farm credit instrumentalities; and with those in charge of the boys and girls farm clubs.

"The farm must be made an attractive future field for the boys and girls of the farm today. The farm home must be improved. The young folk must be made to see the importance and dignity of agricultural work. They must be trained in business methods and in cultural pursuits.

Here must come the co-operation of the Agricultural Commission and the Educational Committee of the American Bankers Association, not only for the better understanding of the farmer by the banker and of the banker by the farmer, but also for the dissemination of knowledge with regard to finance and economics among the school children in the rural districts."

The work of the Agricultural Director will be active, practical, and personal rather than desk and secretarial. He will confer with bankers and farmers throughout the country with a view of promoting better farm finance and develop-

ing more business. He will also form contacts with other organizations and activities for advancing the interests of American Agriculture.

Prof. Otis is a graduate of the Kansas State Agricultural College and after graduation he became assistant in agriculture at the same institution. Later he was elected to the position of Professor of Dairy Husbandry and then to the position of professor of Animal Husbandry. For four years he was editor of the *Kansas Farmer*.

In order to enlarge his experience, Professor Otis resigned his position with the Kansas Agricultural College in 1903, to become the manager of the Deming Ranch of 2500 acres in southern Kansas. He was called from the ranch to the University of Wisconsin where he became assistant to Dean W. A. Henry of the College of Agriculture and Assistant Professor of Animal Nutrition.

Upon the retirement of Dean Henry, Prof. Otis became associated with Dean H. L. Russell and was

made Assistant Dean of the College of Agriculture and Professor of Farm Management in the Department of Agricultural Economics. He assisted in the organization of the American Farm Management Association, whose name was later changed to the American Agricultural Economics Association, and served one term as its President.

Prof. Otis resigned his position with the University of Wisconsin to become the Director of the Banker-Farmer Exchange of the Wisconsin Bankers' Association, which position he has held for over three years. Here he has been instrumental in developing a plan whereby a farmer may list what he has to sell at his local bank and the prospective buyer can likewise list his wants at his bank. These listings are forwarded to the headquarters of the Banker-Farmer Exchange which acts as the Clearing House, getting the buyer in touch with the seller. Prof. Otis is the author of a number of publications on Agriculture.

Prof. Otis is author of a number of publications on agriculture. Among these are bulletins on "*Flesh and Fat in Beef*," "*Experiments in Feeding Calves*," "*Experiments in Breeding and Feeding Pigs*," "*The Dairy Calf at Meal-Time*," "*Experiments in Feeding Steers*," and the "*Farm Well Planned*." He also wrote a treatise on "*Dairying in Kansas*" for the quarterly report of the Kansas State Board of Agriculture. Among his other works is "*Farm Accounts Simplified*" now in its sixth edition; and with Mrs. Otis he wrote "*Household Accounts Simplified*" now in its second edition. The "*Banker-Farmer Handbook*," a farmer's handy reference was also compiled by Prof. Otis, and was distributed in large numbers to the farmers of Wisconsin through the banks of the State. The "*Buyers Note Book*" is still another publication that he has issued for the benefit of the purchasers of dairy cattle.

Prof. Otis' office will be in the First National Bank Building, Madison, Wisconsin.

Twelve Banks Signed

(Continued from page 544)

The banks of Memphis ran their series in newspaper full-page size, amply illustrated. The text was reinforced with a quotation from some author or financier whose name is familiar to the reading public such as:

"A bank account pays large dividends socially in addition to its steady financial returns—J. P. Morgan."

"How can one be ready for the glorious opportunities ahead of him unless he has cultivated the habit of economy and prudence? He must save all he can in season and out of season—John D. Rockefeller."

"No man can afford not to be thrifty. Only the poor are wasteful. E. H. Harriman."

"Extravagance rots character; turn your youth away from it. On the other hand the habit of saving money, while it stiffens the will, also brightens the energies. If you would be sure that you are beginning right, begin to save.—Theodore Roosevelt."

The reduction from the full page

newspaper advertisement shown above emphasizes Mr. Micawber's advice to David Copperfield:

"Annual income twenty pounds, annual expenditure nineteen, nineteen six, result, happiness. Annual income twenty pounds, Annual expenditures twenty pounds, ought and six, result, misery."

But the series was not aimed merely at savings as the titles of other pages will show. Among them were:

"The Banker, the Community Trustee"
"Before you Invest—Investigate Through Your Banker"

"Thieves Know Where to Look for Hidden Money."

"Why the Clearing House?"

"Exchange Charges—Why They Are Necessary."

"Think of Your Banker As a Friendly Adviser."

There is little likelihood that advertising of this kind will be overlooked among the day's news and there is practical certainty that it will command the lasting respect of all who read it.

Money in Circulation

The Treasury statement shows that the total amount of money in circulation on January 1st, was \$4,732,898,991. This, of course, excludes money held by the Federal Reserve Banks and Agents, and money held in the Treasury. It gives a per capita circulation of \$41.80.

The Treasury's form of circulation statement was changed on July 1 last so as to exclude from money in circulation all forms of money held by Federal Reserve Banks and Agents. Under the form of statement used before this change, the per capita circulation would be \$52.26. The per capita circulation on January 1, 1922 was \$41.51; on April 1, 1917 it was \$39.54; on July 1, 1914, \$34.35 and on January 1, 1879, \$16.92.

Three new directors were elected at the annual meeting of the Century Trust and Savings Bank of Chicago. They were: Henry D. Sulcer, John S. Duckworth and D. I. Jarrett. Mr. Sulcer is president of Vanderhoof & Company, advertising. Mr. Duckworth is connected with Duckworth Bros., architects, and Mr. Jarrett is of the firm of Deming & Jarrett, attorneys. The following directors were re-elected: John W. Fowler, president; Almer Coe, C. R. Corbett, W. G. Dahl, Fred A. Grow, E. B. Knudtson, Herman Mack, C. S. Peterson and A. C. Thompson.

The Bogie of German Competition

By WALTER LEAF

Chairman London County Westminster and Paris Bank, Limited

Instead of the "Dumping" Feared upon the Return of Peace the Exact Opposite Prevails. Germany's Two-Price System By Which Goods Have Been Kept at Home. Speculators Have Kept the Nation Going. Depreciation of the Mark the Most Gigantic

Inflation of the currency means the free distribution of purchasing power; people, finding fresh means of purchase placed in their hands, naturally proceed to purchase freely.

There is of course an alternative—they might save the power to use in the future. But that is an alternative which no sensible person will contemplate. The power that is given them is a rapidly wasting power; it must be used at once, or it will fast approach the vanishing point. Each successive addition to the currency depreciates all that has gone before.

So soon as anyone gets a mark in Germany, his first instinct—and a very proper one—is to exchange it for something that has an intrinsic value not to be found in Government paper, something which will at all events retain some value in use, and is therefore bound to rise in price as the mark falls. What the article is, really does not matter, so long as it has an intrinsic value.

Anything But Currency

I should like to give you a concrete instance of what happens, an instance which I had from the mouth of the late Dr. Rathenau, and which is not the less apposite because it happens to be a case of the flight not from the mark but from the Austrian krone.

Dr. Rathenau was, as you know, the head of the great electrical trust which controls the market in Europe, and is known as the A. E. G. He told me that one of his travellers brought back from Austria the proceeds of a large sale for cash of electrical bulbs. Dr. Rathenau did not recognize the name of the purchaser as a known dealer on the scale which the purchase indicated,

and inquired if it was a new firm. He was told that the buyer had nothing to do with the electrical trade at all.

Internal Effect

"I met him in the hotel," the traveller said, "he told me that he was in possession of a large number of kronen which he wished to invest; he had been trying to buy wheat from a large grain merchant across the road, but found there was none to be had; so, hearing that I had electric lamps to sell, it occurred to him that they would do as well as wheat, and he accordingly purchased this large line for cash."

This, then, is the internal effect in Germany of inflation; it has stimulated enormously the internal demand for goods, and has sufficed to keep all the factories of the country full of work, and to avoid so far the spectre of unemployment. But it has at the same time involved a very real drop in the standard of living of the workers themselves, for wages have always lagged behind the rise in the cost of living, and the employers have had the advantage of this difference.

They have been the real gainers at the expense of their men; they have been forced to profiteer whether they would or not. And it is important to bear in mind that the advantage gained by maintaining full employment is essentially a temporary advantage; it depends not on the actual fall in the mark, but on the rate at which it falls, and the continuance of the fall. Any stabilization of the mark will at once put an end to it for good. The one internal advantage Germany has got from her policy of inflation is transient; to the other consequences of it we will come back presently. But we must first look at the con-

sequences of inflation in her external trade, as shown in the exchanges.

The old measure of the "par of exchange," namely gold, has necessarily ceased to have any meaning, unless as a far distant ideal, so long as the currencies of the world have ceased to be redeemable in gold, and have been inflated in various degrees. All that we can do if we want to compare different currencies is to estimate the purchasing power of each in its own country; and this can only be done by comparing the index figures of the prices of commodities in the different countries.

Purchasing Power Parity

If we find that, taking 1913 as a basis of price and calling it 100, prices have risen in country A to 200 and in country B to 300, that means that currency A has fallen to one-half, and currency B to one-third of its pre-war purchasing power; and if there is free exchange of goods between A and B, the comparative exchange values of currency A will tend to become 150 in currency B. If currency B is actually selling for, say, 200, then it will clearly be worth while for a holder of currency A to exchange it for currency B, thus getting the power of buying 150 of B goods, which are as much as he can buy with 100 in his own country, and being left with a profit of 50. In other words, the "internal purchasing power" of one currency tends to be equated to the internal purchasing power of the other. This I take it is self-evident. If a man finds that the amount of marks which he can buy with \$100 will procure him twice as many pairs of boots in Germany as he can buy with \$100 in America, he will buy the marks and import the boots.

This conception of "purchasing power parity," due to Professor Cassel, has attracted much attention of late. Its apparent simplicity makes it alluring; and, moreover, there should be "money in it." For it would seem that by a simple comparison of the prices of two countries we ought to be able to detect the influences behind the movements of the exchange, and forecast the trend of rates in the future. But when we come to apply it, we are reminded of what the poet Hafiz says of the passion of love—"it seems a simple thing at first; but troubles befall." For the problem has been simplified only by making two large assumptions—first, that we can suitably compare the relative prices of two countries, and, secondly, that the interchange of commodities between them is free and unhampered.

Restriction of Exports

Let me give you an instance of the way in which, as it appears to me, Germany has deliberately restricted her exports in favor of her home trade. I select a case which came before me, not in the way of banking business, but in my own private dealings. I had before the war been taking in a German publication on a grand scale, an encyclopaedia of a technical nature, which was being published with true German thoroughness. It had reached the letter H. Ascertaining after the war that several fresh volumes had appeared, I instructed my foreign bookseller to apply for them, expecting to obtain them at a cheap rate, as the exchange was greatly in our favor. To my surprise, I learned that the publishers refused to supply them direct. They stated that the price had been greatly raised, and that, in addition, the books were only supplied for export through agents in Switzerland, and must be paid for in Swiss francs. The Swiss exchange was, of course, against us; so that I was expected to pay not only an enhanced price but make a loss on the exchange as well. I inquired why my bookseller could not buy them in open market in Germany and have them sent direct. The answer was that the publishers only sold them in Germany on an explicit contract that they should not

be exported. I declined to pay a price which had become prohibitive, and the German publishers lost their export in my case. And this was before our reparations duty of 26 per cent. had been placed on German exports.

Now this illustrates a policy which has been largely adopted by the leaders of German industry. They have found their productive power seriously curtailed, and have not ventured to undertake large export business, because they could not be sure of manufacturing the goods.

Preferential Prices

You will remember that not long after the war, there was a considerable outcry about German competition. This has virtually died out; and it is reported that, though large orders were placed with German houses, it was difficult or impossible to get delivery. Manufacturers found their capacity barely equal to supplying home needs, and they preferred to devote themselves to these rather than attempt to capture the foreign markets, as they should have been able to do. They therefore quoted preferential prices for the home trade; if the foreigner chose to order, he must be made to pay dearly for the privilege.

German trade has in fact followed a policy which is the exact opposite of dumping; it is a deliberate renunciation of competition in the foreign markets. Hence it is today that not only is there little complaint of German competition here, but our manufacturers are actually finding that they can export to neutral markets, such as Holland, which, before the war, were for many classes of goods a German preserve. The result is that there have been two rates of prices in Germany, one for the home purchaser, the other for the foreigner; and the index number for the former is no guide to the international purchasing power of the mark. Hence it is that the exchange value of the mark has been constantly far below the purchasing parity in Germany.

Pays for Employment of People

Now let us consider what Germany has had to pay for the one real

advantage of full employment for her workpeople. Who has had to pay for it? The answer to the question is, I think, clear. The cost has been paid by two classes of people; in the first place, by the German investor in securities bearing fixed interest, among which are prominent the German Government's own loans; in the second place, by the foreign speculator in German marks. Perhaps one ought to add a third; for the workman has undoubtedly contributed by a fall in the standard of living, due to the "lag" in the rise of wages as compared to that of retail prices. But it will be enough now if we turn our attention to the other two classes, whose contribution is more conspicuous.

Always Germany's Gain

Let us begin with the speculative buyer of marks. He it is who has enabled Germany to carry on as long as she has. German exports being, for the period since the war, almost invariably less than German imports, it is clear that she has not been able to pay for her needs in goods, as should be the case in normal times. She has paid for them by the sale of currency abroad. And whatever rate she has had to take for her marks, it has been worth her while to take it, is complete confidence that by the time the goods had reached her shores the mark would have further depreciated so that there would be a profit on the transaction.

It has been very lucrative for Germany in the past; but it has one serious disadvantage—that it cannot go on for ever. Germany can always go on selling a bear in her own currency, on one condition—that she can find those who are willing to buy for the rise. Hitherto her success has been phenomenal. Confidence in German credit has been found all the world over, except in Germany. What the amount of marks that have been bought purely as speculation may come to, I do not suppose we shall ever know; but it must be something very large.

Speculation World-Wide

The speculation has been world-wide, and very largely in the hands of amateur speculators of the

"widow and orphan" sort. Probably there has been more in the United States than anywhere else. The American newspapers, I see, have been publishing estimates that the amount which has been lost there in marks, is enough to have paid the whole of the German indemnity under the treaty. That may be an exaggeration, but it indicates a very big movement. Regardless of the example of the rouble, at every fresh fall in the mark there have always been found people to say: "Now the bottom must have been touched; there can be no further fall; let us go in and buy for the inevitable rise." Thus Germany has always been provided with balances abroad wherewith to pay for her essential imports.

Drawing To An End

But the process appears now to be drawing to an end. The recent collapse of the mark exchange is due to the extreme difficulty of selling marks at any price. It has at last come to be recognized that inflation is a bottomless pit, into which it is useless to throw money. And Germany seems to be face to face with the problem of how she is to get from abroad what she absolutely must have. She must have certain raw materials, if her factories are to be kept going; and what is even more important, she must have a certain amount of imported food, if her population is to be kept alive. Germany has to feed no less than 20 millions of her population by the import of food; and hence it is that German economists have said that the only solution of the problem is to shoot 20 million Germans.

Already we begin to hear of cargoes of meat destined for Germany which have had to be diverted to Great Britain, because, as they approached Hamburg, it was found impossible to finance them. The same will to all appearance happen with the cotton and wool which are needed to keep German textile factories going. It looks as though the coming winter may bring Germany to the precipice which lies at the end of the slope down which she has been sliding with ever accelerating speed; and the apparent prosperity of her manufactures would be succeeded by a disastrous shortage both of food and of employment.

So much then for the foreign speculator who has paid a great part of the expense of carrying Germany through the last four years. The other class who have shared the cost are the internal investors in Germany itself. The depreciation of the mark has formed the most gigantic capital levy that the world has seen.

The Confiscation

The levy—the confiscation if you like—has fallen upon one class of investors, those who hold securities bearing fixed interest, and among these a leading place, of course, is held by the owners of German Government securities. These are the elect of the investors, the steady, the safe and the patriotic, those who brought their well-earned savings to the need of their country during the war, and already held every sort of mortgage and debenture. They find their capital destroyed. A man who, before the war, enjoyed an income of say £5,000 a year on the best security, finds it rapidly falling to about £10 a year. If he had a mortgage on a house, he finds his mortgagor repaying him by selling a pair of second-hand boots. The lender is penalized, the borrower enriched; saving is made impossible; the only sensible course is to spend your money as fast as you get it, and cease to think of the future.

Germany has gone far on the spendthrift's downward road. What hope is there that she may yet recover? When we speak of recovery, there can, of course, be no question of recovery of the mark to its gold parity. The best that can be hoped for is a stabilization of the mark. That can only be done by ending inflation; and a point has been reached at which the mere cessation is a most dangerous and difficult process, even without actual deflation. Germany has been living on the difference between the internal and the external purchasing power of the mark—the "lag"; and even to abolish this by ceasing for a time to add to the issue of notes will involve an acute and grave economic crisis.

Like The Opium Victim

Has Germany the reserve, both in political courage and in material re-

sources, to carry her through? It is difficult to believe that she can now do anything without material help from outside. She has not been able to maintain a balance of exports sufficient even to maintain her supply of raw materials and food-stuffs in the past, and has apparently come near the end of her exports of currency. Yet it is only by a surplus of exports that she can keep herself alive, without any thought of paying reparations or other foreign obligations. Until she can balance in the first place her budget, and in the next her exports and imports, she can but continue on the fatal slope of inflation.

And how can she balance her budget, when a budget cannot be laid before the Reichsrath quickly enough for its calculations to retain any validity in face of a fresh fall in money and rise in prices? The vicious circle goes merrily round, and the printing press is taxed more and more heavily. If the press is stopped, chaos will ensue.

* * * * *

She (Germany) found herself faced in the Treaty of Versailles, with demands that it was plainly hopeless for her to attempt to meet. At first, I believe, there was an honest attempt to do what could be done. Large cash payments were called for. These could be met only by an extension of the policy of inflation which had been pursued throughout the war. And so the downfall was brought about. None of us are wholly free from blame. We insisted on the sick patient—I hardly think we realized how sick she was—taking the fatal drug, and now I fear the habit has been established beyond cure. Germany seems to me to have lost the grit for which she was once famous, and is drifting towards ruin with the vacant stare of the opium victim. And the drug which has taken her into bondage is none other than the fatal opiate of a degraded currency—so pleasant at first, so horribly cumulative in its working, so hard to shake off. Can Germany still pull herself together? It is our business to do what we can to help her; for a complete collapse will mean a disaster to Europe and the world, the magnitude of which is beyond our power to foresee.

Some of the Major Problems

By JAMES E. CLARK

AN employee of Henry Ford is quoted as saying, in connection with the movement to create Ford-for-President sentiment that the next president of the United States will be a man who "can read a blue print." Mr. Ford is generally credited with the ability to read a blue print of something mechanical but not with the same ability when it comes to working out our present course from the experience of the past.

History is akin to a mammoth blue print of past events, and often shows us pretty clearly where we will land if we start on certain courses of conduct. Just as a blue print will reveal to an engineer, or to a practical man in engineering or mechanics, weaknesses or impossibilities of construction, so can proposals in government, or economics be checked up by history and their strength or weakness indicated by the results produced. In the conduct of its internal affairs, no nation, can, if it would, ignore its own history; in the conduct of its foreign relations no nation can well ignore the history of other nations.

Before the present Federal Re-

serve System was established there was a long investigation of the history and practices of the banking systems of the world by men competent to read a "blue print" of that kind. But Mr. Ford does not believe in history. He has been quoted as saying that history is "bunk," consequently that part of the history of the United States which deals with schemes of a financial nature, financial heresies and crises which over night turned prosperity into commercial adversity, may not make a strong appeal to him.

One spokesman says that one item of the platform, if Mr. Ford should run, would be "sound currency." Recurring again to history, some barbarous things have been done in the name of civilization and culture all down through the centuries, and there is abundant reason for suspecting that in this movement the "sound" currency may be a matter of verbiage and acoustics rather than of fundamentals and base. Excepting war, famine and pestilence, nothing would do more to upset the prosperity of America than a false prophet of currency leading the people away from

those principles and practices which our own history and the experiences of other peoples have shown to be safe.

Mr. Ford has become the richest man in the world under the currency system that he would change. His wealth is in part a product of our present financial scheme! His ability to make money in manufacturing under the sound and safe financial laws of the country is no guarantee of his ability to reshape those laws.

Mr. Ford abhors waste, and that is an excellent trait. There is a waste of 12,000 human lives in automobile accidents each year. It should be more important to save that many lives each year than to save grease, oils and sawdust. Here is a related problem more urgent than money or credit and offering a greater field for actual service than the presidency itself.

It would be a wicked waste for Mr. Ford to use his eminence and his wealth to undermine confidence in a financial system built on the experience not of a few years, but of generations, and in so doing jeopardize the business, the savings and the employment of thousands.

The Beginning of Dawn

THERE was recently printed in the newspapers an item from an Associated Press correspondent at Petrograd announcing that the State Bank in Petrograd had lately begun the minting of gold coins.

The new gold pieces correspond in size to the ten ruble pieces of the regime of the Czar, worth approximately \$5 each. Some of the new coins have been made from the old coins, some have been minted, the correspondent says, from sacred articles confiscated by the government from the churches, and some minted from new gold mined last summer.

An interesting field of economic consideration is suggested by each of these three sources of supply of gold.

The new government in Russia despised the old and all things pertaining thereto, and one of its early acts attempted to make printing press money take the place of real money. Those who held the power of government fancied that by law and decree the government could create wealth by printing currency. But the reformers erred when they acted on the assumption that paper money can be made to function as currency of stable value without having anything more substantial

back of it than the imprint of the government. Laws creating fiat money—money without a promise to redeem—eventually degenerate into the class of literature, and become mere reading matter.

Now the Russian government apparently has found that a stable currency can not be maintained in this way even when thrones are overturned and broken and the tyrants are dead. It has been found that there are things which governments can not do, and one of them is to compel their people to accept worthless paper in lieu of sound money.

New regimes may smash if they will the institutions of the old, but

there are certain principles against which it is useless to decree. It is useless to attempt to abolish the base of gold as a medium of exchange, for it has come to us out of the ages—nor an arbitrary something, but the best and safest basis of exchange that both ancient and modern times has devised. In re-coining the old gold of the Roman—offs the new government consciously or unconsciously acknowledges the failure of its dream of better times through cheap money, plentiful because there are no limitations to the amount issued. In the minting of the church treasure there is proof of the extreme need for gold to re-establish the business of the country. That some new gold, mined last summer is used shows that, do what it will, no government can rob gold of its value. Men will always seek it, men will always accept it in exchange for goods, and governments always have and always will need it.

But the outstanding fact in this bit of news which filters out of Petrograd seems to be that Russia, having had its fling at paper money, is now wiser and poorer by the experience and is yielding to those circumstances which have made it advisable that nations should base their currencies on gold.

When the financial history of Russia is written; when the complete story of the money delirium which afflicted a whole nation is told, the historian, coming at length to the time when the religious articles were fashioned into coins, might well write for the benefit of the nations yet to come, "This marked the beginning of dawn."



D. R. CRISSINGER

Comptroller of Currency, Nominated by President Harding to be Governor of the Federal Reserve Board

Seepage of Values

THE menace of the boll-weevil is regarded with deep concern in England. A threatened shortage of American cotton spells disaster for the Lancashire mills. In British official circles they are giving attention to schemes for the development of cotton plantations.

A 212-mile extension of the Sudan Railways to Kassala has been planned and the loan will be guaranteed by the government. The

construction of the new road will make possible the expansion of the cotton growing area in the delta of the River Gash.

A further loan is soon to be raised to finance the building of a dam at Makawar on the Blue Nile and a canalization system for the irrigation and development of a large cotton area in the El Gezira district south of Khartoum. The El Gezira scheme is capable of the devel-

opment of fully 3,000,000 acres.

In the attitude of mind which these development plans suggest, there is an indication of a trend of events important both to the south and the north of the United States.

There is a seepage of a market and a seepage of productive values. In the undulations of business the loss may be overlooked at times, but we cannot escape the cumulative effect.

The Capper and Lenroot Bills

THOMAS B. PATON, General Counsel

DESIGNED primarily to provide additional machinery to afford credit to farmers, the Capper and Lenroot bills have come to the front in Congress, the former (S. 4280) having passed the Senate on January 19 and been referred to the House Committee on Banking and Currency, while the Lenroot bill (S. 4287) was on January 11th reported to the Senate and is at this writing (January 23) about to be taken up by that body for consideration. The purpose of this memorandum is not to discuss the merits of these particular bills but simply to make a general statement of their purpose and main features for the information of members.

The Capper Bill

In reporting the Capper bill, the Committee says its primary purpose "is to provide adequate credit facilities for the agricultural and live-stock industries of the United States with special reference to loans of longer maturity than six months which may be required to meet the seasonal demand of producers and distributors." The bill is divided into four titles which contain (1) provisions for organization of agricultural and live stock credit corporations (2) certain amendments of the Federal Reserve Act (3) amendment to the War Finance Corporation Act and (4) an amendment to the Federal Farm Loan Act.

Federal Agricultural Credit Corporations

Title I of the bill (cited as "The Federal Agricultural Credit Act") authorizes the organization, under Federal charter, of corporations to provide credit facilities for the agricultural and live stock industries of the United States, with a minimum capital of \$250,000, and at least five directors. These corporations are subject to examination and under the supervision of the Comptroller of the Currency in the same manner as national banks. The approval of the Comptroller for the beginning of business can only be given after he has determined that the

laws of the state afford adequate protection in such matters as the bonding, licensing and inspection of warehouses, recordation of chattel mortgages and the like. National banks may become stockholders, subject to the Comptroller's approval, to the extent of 10 per cent. of their capital and surplus. The words "Federal Agricultural Credit" are appropriated exclusively to the use of corporations organized under the act.

Nature of Business

Federal Agricultural Credit Corporations are empowered to make advances upon or purchase or discount agricultural paper of two general types; (1) paper secured by warehouse receipts or like documents covering readily marketable and non-perishable agricultural products or by chattel mortgages upon live stock which are being fattened for market, having a maturity of not exceeding nine months; (2) paper secured by chattel mortgages upon maturing and breeding live stock and dairy herds, with a maturity not exceeding three years.

These corporations may also sell, with or without indorsement, their purchased or discounted paper and may issue, subject to the regulations of the Comptroller, collateral trust notes or debentures secured by such paper. They also may buy or sell or deal in Government securities and, when requested by the Secretary of the Treasury may act as fiscal agent of the United States and, under certain limitations, as custodians or trustees; and they may purchase, hold and convey real estate for certain limited purposes connected with their business. The Secretary of Agriculture is authorized to license competent persons to inspect live stock as a basis for loans.

Regulations and Restrictions

The indebtedness which may be incurred by a Federal Agricultural Credit Corporation is limited to ten times its capital and surplus and the amount which may be advanced to

any one borrower is limited to 20 per cent. of capital and surplus unless the advance is secured by warehouse receipts, when the limit is increased to 50 per cent. The interest rate charged by such a corporation follows the terms of the National Bank laws and is limited to the law of the state in which the obligation is payable. Current funds may be kept on deposit with Federal Reserve banks, which banks may act as depositories for and fiscal agents of such corporations. State taxation is permitted on the same basis as that applied to national banks by present or future laws.

Reserves

At the commencement of operations at least 25 per cent. of the paid in capital (the requirement as to payment of capital being that 50 per cent. must be paid in in cash and the balance in instalments within six months from the date upon which the business is commenced) must be deposited with the local Federal Reserve Bank in bonds or other obligations of the United States. As indebtedness is incurred either by a rediscount of paper or issuance of debentures, the amount of such deposit must at all times equal at least $7\frac{1}{2}$ per cent. of such indebtedness. This reserve may be used, under regulations of the Comptroller, to protect or preserve any property pledged or mortgaged as security for obligations owned or indorsed by the corporation.

Other Provisions

The Act provides for the conversion of existing state financing corporations into Federal corporations. It also provides for consolidation, and voluntary and involuntary liquidation of Federal Agricultural Credit Corporations. It also contains certain criminal clauses necessary to enforce its provisions.

Rediscount Corporations

In addition to the Federal Agricultural Credit Corporations, the Act

authorizes the formation of rediscount corporations, having a minimum capital of \$1,000,000 with authority to rediscount paper of the Agricultural Credit Corporations. The limit of indebtedness which may be incurred by the rediscount corporations is left to regulations to be prescribed by the Comptroller of the Currency. The rediscount corporations can obtain funds either by issuing debentures or by selling agricultural paper with or without their indorsement.

Amendments to Federal Reserve Act

Title II of the Capper bill makes a number of amendments to the Federal Reserve Act. It amends Paragraph 1 of Section 7 by providing that after the 6 per cent. cumulative dividend to stockholders, there shall be paid each year to the United States a franchise tax of such an amount as will make the aggregate paid for 1922 and subsequent years equal to the aggregate amount of cumulative dividends paid the stockholding members for such years. After the full amount of the franchise tax has been paid the United States, the balance of the net earnings go to a surplus fund until it shall amount to 100 per cent. of subscribed capital; thereafter when net earnings in any year exceed 12 per cent. an extra dividend of not to exceed 3 per cent. may be distributed to the stockholders and 10 per cent. of the remaining net earnings must be paid into surplus and 90 per cent. to the United States as an additional franchise tax. The purpose of this is to render the Federal Reserve System more inviting to eligible state banks.

An amendment of Section 13 of the Federal Reserve Act is made which carries the rediscount privilege to bills of exchange payable at sight or on demand, which are drawn to finance the domestic shipment of non-perishable, readily marketable staple agricultural products secured by bills of lading or other shipping documents conveying title. Such bills of exchange must be forwarded promptly for collection and no such bill can be held for account of any Federal Reserve Bank for a period in excess of ninety days.

A new Section 13 (a) is added

which provides that agricultural paper, secured by warehouse receipts representing readily marketable nonperishable agricultural commodities may be discounted with a maturity not exceeding nine months; also that paper secured by chattel mortgage upon live stock which is being fattened for market, is eligible for discount where it has a maturity not exceeding nine months. A paragraph is also added which defines as agricultural paper any note, draft or bill of exchange issued or drawn by a co-operative marketing association composed of producers of agricultural products, if the proceeds of such paper have been or are to be advanced by the Association, to its members or used in paying members for agricultural products delivered to the Association or to meet expenditures in connection with the grading, processing, packing, preparation for marketing or marketing of agricultural products.

It is further provided that bankers' acceptances, if drawn for an agricultural purpose and secured by warehouse receipts covering readily marketable staples, may be discounted with a maturity at time of discount of not more than six months as against the present limit of ninety days.

A further new provision is that whenever the Federal Reserve Board declares that the public interest so requires, Federal Reserve Banks may purchase and sell in the open market acceptances of corporations organized under the Federal Agricultural Credits Act.

The ninth paragraph of Section 9 of the Federal Reserve Act is amended so as to make it possible for smaller state banks to enter the Federal Reserve System. It is provided that a bank organized in a place having a population not exceeding 6,000 inhabitants may be admitted with a minimum capital of \$30,000 as against the present \$50,000 and where the population does not exceed 3,000 inhabitants, the minimum capital is fixed at \$15,000. These provisions are coupled with requirements that the capital will, within three years, be increased to the present limits of \$50,000 and \$25,000.

War Finance Corporation

The Capper bill extends the time

during which the War Finance Corporation may make advances for agricultural and export purposes to March, 1924. Applications received up to and including February 29, 1924 may be acted upon and the advances made at any time before March 31, 1924.

Federal Farm Loan Act

The bill amends the Federal Farm Loan Act by increasing from \$10,000 to \$25,000 the amount of loans which a Federal Land Bank may make to any one borrower.

The Lenroot Bill

The Senate Banking and Currency Committee in reporting the Lenroot bill (S. 4287), stated its purpose and general features in the following language:

"This bill is designed to aid in securing for the agricultural interests of the country the same personal credit facilities as are now enjoyed by those engaged in commercial pursuits. Under the existing financial system credit facilities are afforded through the Federal Reserve System for commercial paper having a maturity of not exceeding 90 days, and for agricultural paper having a maturity of not exceeding six months. Through the farm land bank system credit facilities are afforded the agricultural interests of the country, based upon real estate security for long-term loans, but there is an intermediate period extending from six months to three years very necessary for the farmers of the country for which they now have inadequate credit facilities. The farmer should have a personal credit facility to correspond with his turnover. That is, a loan for productive purposes or marketing purposes should be of such maturity as will enable the borrower to pay off the loan out of the proceeds of his crop. Under existing conditions bank will not generally make loans extending beyond six months, not because of any lack of confidence in the borrower to repay the loan but because of the inability of banks, in case of stringency or emergency, to realize on such long-term paper. To meet this situation a discount facility should be provided for this long-time paper co-

responding to the discount facilities for commercial paper, and that is the principal object of this bill.

"We believe that the major part of relief to the agricultural interests will come not through the discounting of long-term paper but through the assurance to the banks extending this accommodation that in case of need a facility is provided for its discount. With that object in view, the bill sets up in the 12 farm land banks under the Federal farm-loan banking system a separate personal credit system with segregated assets and liabilities under the same management as

is now provided for Federal land banks and under the supervision of the Farm Loan Board, each having a capital of \$5,000,000 subscribed by the Government, and with authority to issue collateral trust debentures to the extent of ten times its capital, the proceeds of which shall be available for use for discounting for or purchasing from any bank or other institution named in the bill, obligations the proceeds of which have been advanced or used in the first instance for agricultural purposes. It may also make loans direct to co-operative associations engaged in producing

and marketing staple agricultural products or live stock where the obligations of such co-operative associations are adequately secured.

"Amendments are also proposed to the Federal reserve act extending, under certain limitations, the rediscount privilege of agricultural paper from six to nine months, and also further amending said act regarding the eligibility of State banks and the payment of dividends to member banks by Federal reserve banks."

A detailed statement of the various provisions of the bill will not, at this stage be made.

The Large Account That Is a Loser

By DALE GRAHAM

TURNING his attention from small accounts to larger ones, the banker may be surprised to learn that a few of those he valued most highly are not so profitable as he thought. It is in seeking out such accounts that an analysis is of great service, for in many instances the causes which make the large account unprofitable may, by tactful methods, be removed. Look out for the customer who:

1. Deposits checks which require from one to four or more days for collection, and checks against the balance thus built up before the proceeds are available.

2. Requires the bank to keep cash on hand to meet his pay-roll needs.

3. Receives from the bank expensive check-books—often printed for his individual use—or great numbers of payroll checks.

4. Asks the bank to remain open after business hours and keep additional currency on hand to cash pay checks for his employees.

5. Deposits currency and sends large checks out of town, thereby necessitating continual shipments of cash on the part of the bank to restore

balances with correspondents or the Federal Reserve Bank.

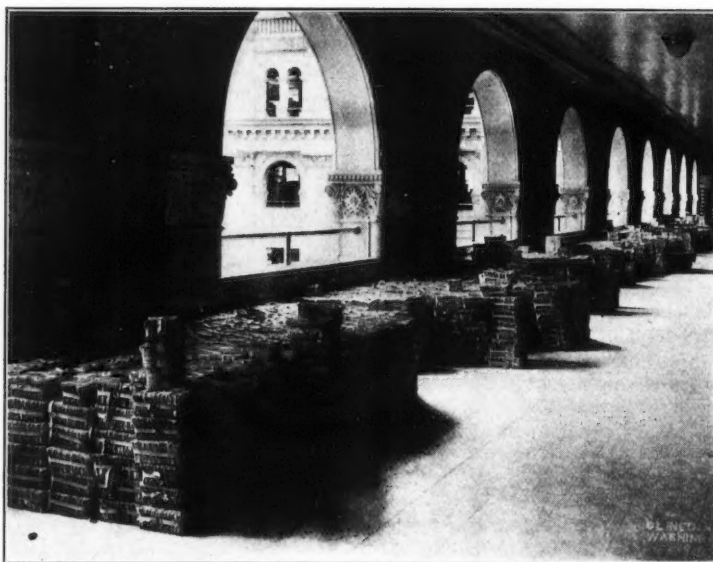
6. Deposits numerous sight drafts on individuals in other cities, which require separate mailing and incur considerable postage and stationery expense.

7. Discounts his customers' notes with the bank.

8. Continually stops payment on his checks,

laying the bank liable in case of inadvertence on the part of a bookkeeper.

The above do not, with the exception of checking against uncollected funds, necessarily, constitute things a customer shouldn't do, nor is it intended to imply that they invariably result in losses to the bank, but they are services which the customer should adequately pay for with a respectable balance; the bank has a right to expect and demand that he pay for them.



WHEN DIRTY MONEY GOES TO THE "LAUNDRY" IN WASHINGTON



OPINIONS OF THE GENERAL COUNSEL



THOMAS B. PATON
General Counsel

Form of Restrictive Indorsement

Where a draft is indorsed "for collection and remittance without deposit or intermingling with the bank's funds," such form would probably create a trusteeship in the indorsee bank, so that in event of its failure, the claim for the proceeds of collection would be preferred.

From Kansas—If an arrival draft or demand draft bears the following indorsement:

"For collection and remittance without deposit or intermingling with the bank's funds"

are such funds considered a part of bank's funds in case of failure or does it make a preferred claim, payable in full out of such available funds as may exist at time of failure?

There is a conflict of authority whether a bank which collects a draft for a principal and then fails before its remittance check is honored, is a debtor or a trustee for the proceeds. The numerical weight of authority holds the bank to be a trustee and that the owner has a preferred claim, but the courts in a number of states hold the bank a debtor.

The form of indorsement which you submit is doubtless designed with the intention of making the collecting bank a trustee for the proceeds so that the claim will be preferred. Literally thereunder, the bank could not deposit the funds collected in its own bank, but would have to remit the money or draft which it received in collection. But presumably the practice thereunder would be for the collecting bank to mingle the funds with its own and send its own draft and then the question would arise whether this form of restrictive indorsement created a trusteeship in the bank which would make a preferred claim for the proceeds. It seems to me, it might have such effect as it virtually makes the collecting bank a trustee by depriving it of authority to deposit the funds col-

lected and thus become debtor according to the decisions of some courts. This form of indorsement has never, so far as I know, been passed upon judicially but I think it would have this effect. It occurs to me that if the form should read: "Pay to AB bank trustee for collection and remittance" this would create a trust relation between the sending and the collecting bank and might have the same effect without forbidding the trustee to deposit the funds in its own bank. Until the courts pass upon such a form of indorsement, however, the precise legal effect cannot be foretold with certainty.

Right to Possession of Paid Certified Check

A bank has the right to temporary possession of checks paid, whether certified or uncertified, until the account with its depositor is settled; and then the ultimate right to such possession is in the depositor.

From New Jersey—It has been our custom for some time when certifying checks, to charge our customers' accounts and set same up in our general ledger as a liability. When the checks are presented for payment the account in the general ledger is charged, and the checks held as our receipt. We recently learned that some of the banks in this vicinity are returning the original certified checks to the customers, along with their other vouchers. Will you kindly inform us if it is necessary for a bank to hold these checks after payment has been made?

It is quite the general practice, I understand, for banks to return to their depositors, certified checks paid by them equally with uncertified checks, as paid vouchers. A bank has the right of temporary possession of checks paid, whether certified or uncertified, as its evidence and voucher of having made the payments represented thereby, until the account with its depositor is settled; then the ultimate right to

such possession is in the depositor, as they constitute evidence of his payment to the payee.

Liability of Bank for Deposit Misappropriated by Cashier

Where A deposits money in bank subject to check and the cashier later transfers the money to a savings account, and loans it to himself and others, claiming that A has orally authorized him so to do which A denies, the bank is liable to A for the money deposited unless it can prove that A authorized the cashier to loan the money out for his account.

From Utah—A deposits in bank to checking account. Cashier later transfers a large part of account to savings, claiming oral instructions were given which A denies. Cashier after this, loans this money in checking and savings account to himself and others, claiming consent had been given by A. A claims he has no knowledge of any such instructions or consent and only found out ten months after when statement of his account showed a very small balance. Is the bank responsible for this account?

The bank is undoubtedly liable to the customer for the money deposited to his credit unless it can prove that the customer authorized the cashier, as his agent, to loan this money for him. As the cashier only claims to have received an oral instruction so to do, it would probably be hard for him to prove that the customer authorized him to loan the money out of his account, where the customer expressly denies all knowledge thereof.

Notice of Dishonor By Collecting Bank

Where a bank receives items for collection bearing several blank indorsements without any address, which items are dishonored, it is sufficient for the bank to forward notice of dishonor to the last indorser from whom the items were received. The practice is for the

collecting bank to make out a notice for each indorser leaving the address blank and forward all such notices to the last indorser from whom the paper was received together with the instrument protested.

From Connecticut—We are receiving, from time to time, checks and notes for collection bearing several blank indorsements, such as John Jones, Richard Doe, etc., without any address, and we would be pleased to receive any information you might give us in regard to making out the notices in the event that protest should be required. In the case of notes, very often it is possible to obtain the addresses of the various indorsers before the note becomes due; but with checks and some notes we do not know the address of the indorsers and there is not sufficient time to obtain same. Should the address be left blank on the notice to the indorser and simply addressed to John Jones and be sent together with the returned paper to the last indorser from whom it was received by us?

The Negotiable Instruments Act provides that "Where the instrument has been dishonored in the hands of an agent, he may either himself give notice to the parties liable thereon, or he may give notice to his principal. If he give notice to his principal, he must do so within the same time as if he were the holder, and the principal, upon the receipt of such notice, has himself the same time for giving notice as if the agent had been an independent holder."

In the case stated by you where you receive indorsed items without any address of the indorser, notice of dishonor should be made out with the address blank and these should be forwarded to the last indorser from whom you received same.

Holder in Due Course of Stopped Cashier's Check

A bank in Oklahoma purchased a cashier's check issued by a bank in Arizona from an indorsee of the payee, said bank knowing both payee and indorsee. The issuing bank refused payment, claiming the payee owed them a certain sum, but offered to pay the remainder. Opinion:—The purchasing bank has a clear right of enforcement for the full amount free from defense of maker against payee and also has recourse upon the indorsers.

From Oklahoma:—A certain bank in Arizona (a national bank) issued their Cashier's check to "B" who indorsed it and it was presented to us by "C." We knew each of the indorsers and had it been a personal check would not have cashed it, but it being a cashier's check did not hesitate in paying the money out on it because we could identify the payee from his signature and considered the check good. This check was returned to us marked "Payment stopped." We wrote the bank relative to the matter and they advised that "B" owed them \$15.00 and that they would not pay the full amount of the check until they had received the \$15.00 or they would deduct this amount from the face of the check and pay us the remainder.

We would like to have you advise us if, under the circumstances, they can legally refuse payment of this check.

Your bank being an innocent purchaser for value, of a negotiable instrument without notice of any defense or off-set of the maker against the payee, has a clear right of enforcement against the issuing bank for the full amount. Your bank is a holder in due course and your rights are declared by Section 57 of the Negotiable Instruments Act which provides:

"Sec. 57. A holder in due course holds the instrument free from any defect of title of prior parties and free from defenses available to prior parties among themselves, and may enforce payment of the instrument for the full amount thereof against all parties liable thereon."

Under the circumstances, the issuing bank cannot legally refuse payment of this check in full and you also have recourse upon the indorsers provided their liability has been preserved by due notice of dishonor.

Competency of Indiana Bank Notary

A Notary Public who is an officer of a bank is not competent, in view of the prohibition of the Indiana Statute to act as Notary in connection with the bank's business in administering a note to the maker of an affidavit attached to a note, to induce the bank to pursue the note.

From Indiana:—We would like to know whether in your opinion a Notary Public, properly authorized to act as Notary Public, in his individual capacity and who at the same time happens to be an officer of the Bank is competent to sign and acknowledge these affidavits,

In other words, because such a Notary happens to be an officer or connected with the Bank, would his acknowledgment of these affidavits in connection with the Bank's business make the acknowledgment void or make the affidavit non-enforceable?

In connection with our bank's business we require affidavits, such as "Married Woman's Affidavit," or "affidavit as to liens and encumbrances" from some of our customers in connection with loans and the taking of notes.

Section 2392 Burns Annotated Indiana Statutes (Supplement of 1921) provides in part that "Whoever being an officer in any bank * * * acts as a notary public in the business of such bank * * * shall be fined or imprisoned."

It seems to me that this would render incompetent an officer of your bank acting as notary in connection with the Bank's business in administering an oath to the maker of an affidavit attached to a note, to induce the bank to purchase the note."

The notary being incompetent to administer an oath in such case, I doubt if the affidavit would have any legal effect as such so far as binding the affiant is concerned.

Notary Sharing Fees with Bank

It is contrary to public policy for a notary to share his official fees with his bank and a contract so to do is unenforceable.

From Kansas—Is it lawful for a bank to agree with its cashier who is also its notary, that the latter, in view of his salary, will turn over one-half of all the notary fees received by him to the bank?

It is generally held by the courts that such an agreement is against public policy and invalid. See opinion to this effect in Digest of Legal Opinions, 1908-1921, Paragraph 2356. See also, recent decision of the Supreme Court of Illinois digested in this number.

The Capitalist

The capitalist is the fruit of our industrial experience. He is the only contrivance, except the savings bank and the insurance company, by the use of which we have succeeded in accumulating much capital; and it is only by obtaining and using capital that we have risen out of the cave and wigwam.

—HENRY S. MCKEE.

Compels ATTENTION— ADVERTISES ITSELF

"OUR bank-building is a big advertisement for us," writes an official of this Farmers and Merchants State Savings Bank, of Manchester, Iowa. And behind his statement stands the fact that this building, by means of its attractive brick and Terra Cotta exterior, irresistibly advertises itself to the "man on the street."

It can easily be seen that a very large part of the attention-value of this bank-building is secured by the architect's effective use of cream-colored Terra Cotta. This material by reason of its almost unlimited adaptability to form and color is always first choice for trim and ornament. It stands out here in pleasing contrast to the dark brick fields, thus giving the building an atmosphere of richness and impressiveness.

Where brick is the facing material, Terra Cotta is almost always used for decorative purposes. On many buildings it is used exclusively for both facing and decoration. Terra Cotta gives greater return in beauty of form and color, for the money spent upon it,



FARMERS AND MERCHANTS STATE SAVINGS BANK
MANCHESTER, IOWA

Cream glazed Terra Cotta trim and ornament
Speckled gray Terra Cotta base course
THE LYTLÉ CO., Architects

than does any comparable material. Furthermore, it is permanent, unaffected by weather or time, fire-resistant to the utmost.

Our handsome brochure, "Better Banks", shows pictures of many beautiful bank buildings that have employed Terra Cotta to achieve their architectural distinction. If you are interested in banks, we'll be glad to send you a copy of this booklet—free, of course. Address National Terra Cotta Society, 19 West 44th Street, New York, N. Y.

TERRA COTTA

Permanent

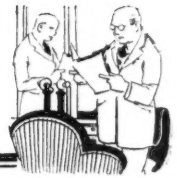
Beautiful

Profitable

When writing to advertisers please mention the "Journal of the American Bankers Association."



RECENT DECISIONS



DIGESTED BY THOMAS B. PATON, JR.,
Assistant General Counsel

PAYMENT OF CHECK OUTSIDE OF BANKING HOURS VALID—WASHINGTON

A check was presented at 8:30 o'clock in the morning before the bank opened for general business. Later on before the bank opened, the drawers endeavored to stop payment by notifying the bank, both orally and in writing. The bank refused to recognize the stop order. The court's opinion reads in part as follows: "The courts, of course, recognized that it is the custom of banks to have regular business hours, and, where these hours are reasonable it will not ordinarily place a bank in default for refusing to deal with a customer outside of such business hours. But neither the custom of the bank nor the principle of law stated fixes any hard or fast rule as to the time a bank may transact its ordinary business. If it chooses to transact such business either before or after its usual business hours, the transaction is not for that reason alone illegal. It has the effect of a transaction had during the usual business hours, and must be impeached, if impeached at all, for some reason apart from the hour of its transaction. But more than this it was shown that it was usual and customary for banks located in the city where this bank was located to engage in transactions of this sort outside of the ordinary business hours, especially where one bank was dealing with another. Since the business of conducting a bank is affected with a public interest, statutory regulation fixing the hours within which a bank may transact its ordinary business are recognized by the courts as obligatory. In this jurisdiction, however, there is no such statute." *Raynor v. Scandinavian-American Bank*, 210 Pac. 499.

NOTARY'S AGREEMENT WITH BANK TO PROTEST COMMERCIAL PAPER AT LESS THAN STATUTORY FEES ILLEGAL AND HE MAY RECOVER FEES FROM THE BANK—ILLINOIS

A notary accepted employment by a bank for the sole purpose of protesting its commercial paper at a compensation less than the statutory fees. The notary agreed to protest commercial paper whenever required by the bank for which service the bank agreed to pay him one-eighth of all the protest fees received by it on paper protested at the bank. The notary periodically executed a receipt in full which included an assignment to the bank of all sums due for fees earned in the preceding period. The consideration for the assignment was the continued employment during the next period.

The employment of the notary continued from October 1, 1911, to December 31, 1918, at which time the notary sued the bank to recover the full amount of the statutory fees received by the bank to its use. The bank as a defense set up the agreement entered into with the notary public. The court held that the notary could recover, stating that an agreement with a public officer for the performance of official services, the compensation for which was fixed by the agreement at a rate lower than the statutory rate, is contrary to public policy and will not be enforced. *Pitsch v. Continental & Commercial National Bank of Chicago*, 137 N. E. 198.

OMISSION OF REVENUE STAMPS DOES NOT AFFECT NEGOTIABLE CHARACTER OF A NOTE—IOWA

In an action on a note given in payment of shares in a corporation, it was established by undisputed evidence that the note at the time of its negotiation to the bank did not bear the internal revenue stamps, as required by the Federal Statute. For this reason the trial court ruled "that the note was not regular and complete on its face," and that the bank "did not become a holder of the note in due course." The Supreme Court held that this ruling is predicated on the theory and principle stated in *Lutton v. Baker*, 187 Iowa 753, 174 N. W. 599, which since the instant trial has been overruled in *Farmers State Bank v. Neel* (Iowa) 187 N. W. 555. See also, *Richardson v. Cheshire* (Iowa), 188 N. W. 146. The omission of revenue stamps does not affect the negotiable character of the note in the suit, and it was held error to find that it was not regular and complete on its face. *Udell Savings Bank v. Hollingsworth*, 189 N. W. 944.

NOTICE OF DISHONOR REQUIRED THOUGH MAKER OF NOTE IS BANKRUPT TO INDORSER'S KNOWLEDGE—MICHIGAN

A note in the sum of \$1,000 was given by an Indiana corporation for the purchase of an automobile. It was indorsed by two indorsers. The corporation became bankrupt and a receiver was appointed. For upwards of a year following, the holder of the note filed no claim against the maker, but instituted suit against the indorsers. The indorsers defend on the ground that no notice was given. Although it was conceded by the plaintiff that no notice was given, it is claimed that the maker was bankrupt on the due date of the note and that the indorsers had knowledge of that fact and of the financial condition of the makers.

The court held that the indorsers were released from liability on the ground that the plaintiff was not relieved from the requirement respecting notice of dishonor. *Haynes Auto Co. v. Shepherd et al.*, 189 N. W. 841.

MARRIED WOMAN CAN ACT AS ACCOMMODATION INDORSER—WISCONSIN

A woman was sued on a promissory note of \$8,000. She defended on the ground that, at the time she indorsed the note as an accommodation indorser without consideration, she was still a married woman and that the transaction was in no way related to her separate estate. Although it was claimed that she cannot be charged with liability, she, being a married woman, it was alleged that her common law disability was removed by section 6.015, Chapter 529, Laws of Wisconsin, 1921, which reads in part as follows: "Women shall have the same rights and privileges under the law as men in the exercise of suffrage, freedom of contract, choice of residence for voting purposes, jury service * * *"

The court held that the common law disability of a married woman to become a surety for a third person is not a protection or privilege enjoyed for the general welfare, but is a limitation upon her freedom of contract and that this section removed that disability. Upon the argument that it is in the interest of the general welfare that a married woman should not have capacity to become surety for the debt of another, the court said: "No amount of legislation, either statutory or constitutional, can destroy the fundamental differences of sex. All wise legislation at least must recognize established indisputable biological facts. While there is a continual reference in the earlier decisions to women as the weaker, and in some instances, the inferior sex, drawn from a time when social and legal distinctions were based largely upon physical prowess, no one is now heard to contend that because there are fundamental differences between the sexes have been brought to an absolute inferior or superior to the other. By recent legislation in this country, the sexes that either sex is for that reason equality of right and privilege before the law, but that fact does not and should not strike down sex as a basis of classification in the enactment of laws relating to the health, morals, and general well-being of our people." *First Wisconsin Nat. Bank v. Milwaukee Patent Leather Co., et al.*, 190 N. W. 822.

ATLANTA NATIONAL BANK

ATLANTA, GA.

The Oldest National Bank in the Cotton States

Resources Over \$30,000,000

OFFICERS

JAMES S. FLOYD, Vice-President
GEO. R. DONOVAN, Vice-President
THOMAS J. PEEPLES, Vice-President
JAMES F. ALEXANDER, Vice-President
P. M. SMOAK, Asst. Cashier and Auditor

ROBERT F. MADDOX, President

R. B. CUNNINGHAM, Cashier
D. B. DeSAUSSURE, Asst. Cashier
LEO STILLMAN, Asst. Cashier
A. N. ANDERSON, Asst. Cashier
H. G. WALKER, Asst. Cashier

*The Law Recognizes
the Banker's Responsibility
to the Public.*

A great majority of the leading Bankers recognize that Holmes Electric Protection is the surest means of discharging this responsibility.

*"Where there is Holmes
there is safety"*

**HOLMES
ELECTRIC
PROTECTION**

139 CENTRE ST.
New York City
Philadelphia

Telephone
Franklin 6030
Pittsburgh

THEY
MAKE
FRIENDS



Because A·B·A Cheques help travelers in so many different ways and because in every part of the civilized world people accept A·B·A Cheques like money of the land—



A·B·A American Bankers Association **Cheques**
"TRAVEL MONEY"

make friends for institutions selling these popular travel funds.

They are the *only* travel cheques accepted by the U. S. Government in payment of customs duties.

Sold in compact wallets in denominations of \$10, \$20, \$50 and \$100 by more than 10,000 banks and trust companies in the United States and Canada.

For literature and information write to
BANKERS TRUST COMPANY
New York City

GREGERSON BROTHERS

**CERTIFIED PUBLIC ACCOUNTANTS
INCOME TAX CONSULTANTS**

Specialists on Federal Income and Excess Profits Tax Problems for current year, as well as additional Assessments for years 1917, 1918, 1919 and 1920

OMAHA NATIONAL BANK BLDG., OMAHA, NEBRASKA

The Scope of Bank Control

By W. F. CRICK

Strict Control in This Country Where Individualism is the Key-note; Freedom of Regulation in Great Britain Where the State has Entered the Economic Field with Wider Powers. Evils of Completely Unrestricted Banking Disclosed by a Failure Abroad Last Fall.

THE attention of social reformers in England has been directed to the improvement of industrial conditions, while banking has been ignored. The result is that in no department of Great Britain's economic affairs is the public so ill protected as in banking, while at the same time there are few employments in which there is such heavy material sacrifice for the sake or unsubstantial social advantages as in the ordinary routine labor of banking.

One reason for the general freedom of British business—and banking, in particular—from governmental supervision is inherent in the economic status of the country. England would be in a critical condition if reduced to dependence solely on her industry. Before the war and now, a large part of the surplus of commodity imports over commodity exports is balanced by the trading and financial services of the country's citizens. So that banking has become to a large extent a separate profession, as apart from the country's own domestic industry and trade, and an important source of the country's aggregate real income.

In Answer to Requirements

In the United States, however, the position is altogether different. Here banking has grown up solely in answer to the requirements of a growing, increasingly complex, economic mechanism. It has become a definitely subordinate part of that mechanism, ancillary to domestic industry and trade. Only in recent years have the foreign trade of the United States, and its external financial activities, become important. Out of this situation it was natural that there should be felt a demand for the regulation of banking in the interests of those most intimately concerned in its soundness, namely, the farmers, manufacturers, and traders of the country. Such conditions must have been in part responsible for the legal requirements as to percentage reserves against deposits, the limitation of the tenor of bills discounted, and the provisions for periodical examinations to ensure compliance with what might be called the "liquidity laws." The lack of a strong central banking system made such regulation all the more necessary.

Another reason for this distinction between the American and British developments may be found in other lines of progress. In the United States the foundation of a bank is a comparatively

simple matter. With a system of independent banking, little capital is required to set up a bank which may stand a reasonable chance of competing successfully with banks already in operation. But in England, the setting up of a bank within, say, the last fifty years, with any amount of capital, would have been an extremely hazardous speculation.

Necessity for Regulations

The ease of setting up banks not only reduces the average financial foundation of the country's banks, but dilutes the personnel of banking, bringing into positions of responsibility men whose abilities to fill those offices have not yet been proven in any lesser capacities. Hence the necessity for all sorts of regulations in the interests of the protection of the public—requirements as to minimum capital, maximum loan and note issues, reserves, examination and publicity.

The demand for such protection was stimulated by the historical course of events in American banking. Under conditions already noted, and others later to be mentioned, crises and currency difficulties, frequently leading to failures, have forced an immediate contact between the public and the banks. The national bank notes, and prior to 1865, the State Bank notes, issued in small denominations, were sufficient to produce a public interest in the country's banking institutions which the British banks, within the last 150 years, with strictly limited issues of high denomination, could never have aroused. How important is this factor is clear from the fact that such regulation as does exist in England relates almost exclusively to note circulation, the one phase of banking, now centered completely in the Bank of England, which most closely touches the public. In the United States, as explained, the contact is much more widespread, calling for publicity and note reserve requirements, and later for deposit reserves.

The force with which the need for regulation of banking was brought home to the American public is the result of historical circumstances. The development of the United States, particularly the colonization of the interior, was crowded into such an extraordinarily short space of time that the corresponding growth of banking facilities had to be kept strictly under control, or it would run amuck. The development of banking is very much like walking

across a bog. If you travel fast, the chances are you will sink. Safety can be assured only by slow, judicious advance. Preserving the analogy, the United States was driven on by an uncontrollable force—the rapid exploitation of economic resources—to travel faster than was safe. England, on the other hand, developed so gradually that in banking no step was taken before the last was proved. It was necessary, therefore, in the case of the United States, to impose a superior intelligence, so to speak, on the hurrying pioneer, so that dangerous steps should be reduced to a minimum.

Revolution is frequently five minutes' evolution crowded into one. Whereas England gradually evolved into economic prominence, the sudden leap of the United States into a position of unequalled importance in the world's economics is little less than a revolution. Just as revolution heightens the discomfort of readjustments to altered circumstances, so a rapid development of banking was not unaccompanied by disagreeable factors.

Federal Reserve Act

How true is this interpretation of the relation between the "old" and the "new" in banking practice is shown by recent history in the United States. Just as revolution is a time of crowded experimentation, so the United States developed a banking system peculiarly its own. But as development slowed up, it was recognized that much good existed in other systems, which had grown up by a slower process of experimentation. The result of the consequent study of European methods is seen in the Federal Reserve Act, which is a classic in its attempt to adapt the best in the European systems to established institutions in the American system. The structure which has been built up, provided it steers clear of political entanglements, will probably prove the most efficient mechanism yet elaborated for meeting the credit and currency needs of an immense heterogeneous population operating in a land of unparalleled resources.

Thus has come about what seems at first sight a paradox. The strict regulation of banking in a country where individualism is the keynote of all its activities is an amazing contrast to its almost complete freedom from regulation in England, where the state has entered the economic field with much more boldness and wider powers. The

truth is that an economic or political principle is not infallible. Free trade may sometimes kill an industry, but protection may sometimes fail to save its life. So individualism has its limitations, and must be restricted as circumstances prove to be expedient. The circumstances differing, regulations have been imposed in the United States which would be scouted as altogether superfluous in England, where conditions have not called loudly enough for their enforcement.

England Sees Need

Nevertheless, the need for some degree of regulations is not altogether unrecognized in England. Periodically a shock is given to the complacent confidence which characterises the British attitude towards banking. In October, 1922, for example, there occurred a bank failure containing evidence of the evils of completely unrestricted banking. The firm, of army agents and bankers, Sir C. R. MacGrigor, Bart., and Company, failed with liabilities of over £800,000 (of which current accounts made up £600,000 and deposit accounts £150,000) and assets of £700,000. It was found, however, that £650,000 of the assets consisted of overdrafts and loans, many of which were so old that the total value of the assets was estimated by the Official Receiver at £275,000. Apart from gross incompetence—the honoring of irregular checks, the permitting of customers to overdraw without authority, and failure to make any provision for book debts—it was disclosed that even when handed over to the present partners, in 1890, the business was only just solvent. But the most amazing fact is that, neither at that time, nor since then, until the insolvency was laid bare by the refusal of a joint stock bank to make further advances to the firm, had any balance sheets been drawn up. On the other hand, profit and loss accounts had been compiled annually, but were kept in a private ledger, from which it was now impossible to prepare accurate accounts. Despite this fact, heavy drawings had been made by the partners during the last three years. The fact that this sort of mismanagement had been going on during the forty years of the firm's agency for the War Office, without any apparent effort on the part of the latter to investigate its solvency, invested the case with peculiar public interest.

While there has arisen no strong public demand for governmental regulation as the outcome of these disclosures, one fortunate result is that three well known private banking firms have now published statements of their financial condition. But this is not enough. As pointed out in a previous article, voluntary statements contain inherent weak-

nesses which render them of problematical value. Only examination by an impartial agency—the government—and publication of condition reports thereby can make good the deficiency in the relations between the British banks and

the public. It is such cases as that of the MacGrigor bank which expose the need for full publicity, demanded in the interest of the public, and procured by its established agencies of government.



CONDENSED STATEMENT

At the close of business, December 29, 1922

ASSETS

Loans and Discounts	\$ 88,987,819.55
U. S. Bonds and Certificates	21,187,355.38
Other Bonds and Investments	7,152,815.11
Banking House	1,500,000.00
Customer's Liability Account of Acceptances	6,633,156.03
Cash, due from Banks and U. S. Treasurer	34,954,994.21
Interest earned	438,794.30
	\$160,854,934.58

LIABILITIES

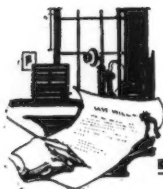
Capital Stock	\$4,500,000.00
Surplus	13,500,000.00
Undivided Profits	2,744,487.97
Reserved; Taxes, etc.	683,358.25
	\$21,427,846.22
Unearned Interest	465,957.84
Circulation	360,816.50
Acceptances and Travelers' Checks	7,165,959.76
Other Liabilities	3,554,296.00
Deposits, viz.:—	
Individuals	\$93,796,501.08
Banks	31,466,307.18
United States	2,617,250.00
	127,880,058.26
	\$160,854,934.58

Seeking New Business on Our Record

THE CHEMICAL NATIONAL BANK OF NEW YORK

Founded 1824

BROADWAY AND CHAMBERS, FACING CITY HALL



TRUST COMPANY DIVISION



Twelfth Annual Banquet

INVITATIONS and subscription announcements outlining detailed arrangements for the Twelfth Annual Banquet of the Trust Companies of the United States, have been forwarded to all members of the Trust Company Division and others believed to be interested in attending. As in past years, the banquet will be held in the Grand Ballroom of the Waldorf-Astoria Hotel, New York. Tables will be arranged for eight and sixteen covers each. Although preliminary reservations indicate a record attendance, every effort will be made to allot all seats requested. Box seat tickets are being furnished without cost.

Theodore G. Smith, president of the Trust Company Division and vice-president of the Central Union Trust Company, New York, will preside and act as toastmaster. Eminent speakers will deliver addresses upon subjects of timely interest. The following Committee on Arrangements is perfecting all details in order to assure this banquet being of the same high character as in former years: Theodore G. Smith, chairman, Uzal H. McCarter, president Fidelity Union Trust Company, Newark, N. J.; John W. Platten, president U. S. Mortgage & Trust Company, New York, N. Y.; Francis H. Sisson, vice-president Guaranty Trust Company, New York, N. Y.; and Edwin P. Maynard, president Brooklyn Trust Company, Brooklyn, N. Y. Reservations and other communications are returnable to Leroy A. Mereshon, secretary, at Five Nassau Street, New York.

National Conference of Trust Companies

Letters of announcement regarding the Fourth Mid-Winter Conference of the Trust Companies of the United States have been sent to active and associate members of the Trust Company Division and other corporate fiduciaries. The conference will be held in the Roof Garden of the Waldorf-Astoria Hotel, New York City, on Thursday, February 15th. The Roof Garden is admirably adapted to meetings and luncheons and is well heated, lighted and ventilated.

Two sessions will be held throughout the day. The first session will open at 9:30 a. m. and close at 1:00 p. m. A luncheon will be served at one o'clock. The second session will open at 2:00 p. m. and continue until 5:00 p. m. Ample time will then remain for those planning to attend the annual banquet to prepare for the reception to be held at 7:00 p. m.

Evans Woollen, vice-president of the Trust Company Division and president

of the Fletcher Savings & Trust Company, Indianapolis, Ind., will preside at both sessions.

The program will not be composed of any reports or set addresses. At last year's conference certain problems confronted by trust company executives in the handling of their business were presented and discussed. The conference this year will follow along somewhat similar lines. Leaders, however, will be selected to open discussions upon definite topics. The members in attendance will then be invited to discuss fully and freely all phases of the subjects presented.

A tentative list of subjects suggested for discussion were outlined in the announcement. They include such items as cost accounting or the relationship between "overhead" and compensation; handling real estate held in trust; problems in dealing with beneficiaries under trusts; safeguarding the receipt and delivery of securities; life insurance trusts; living trusts; purchase, sale and exchange of trust investments; estate tax problems; business building; managing businesses for trusts, and current legislation.

Six and one-half hours will be consumed in presenting and discussing the separate subjects upon the program.

Pennsylvania Trust Companies Meet

The First Mid-Winter Conference of the Trust Company Section of the Pennsylvania Bankers Association was held at the Pittsburgh Golf Club on Wednesday, January 24. Over one hundred officers and representatives of trust companies and other corporate fiduciaries were in attendance. The sessions opened at 10:00 A. M. and continued, with the exception of one hour for luncheon, throughout the day until 5:00 P. M. The conference, as announced, was held for "real discussion of some of the many problems confronting the various fiduciary divisions of trust departments." It followed the plan of the Mid-Winter Conferences which have been held in February for the past three years in New York City under the auspices of the Trust Company Division of the American Bankers Association. The success of these meetings justified the holding of such a conference in Pennsylvania.

The discussions throughout the day centered upon the following subjects:

- (a) Operation of transfer and stock registration departments, including the cost thereof and determination of reasonable fees.
- (b) The proper administration of real estate, including maintenance, collection

of rents, and sale of properties held in trust.

- (c) Services rendered as trustee under bond issues, including methods of determining fees for various duties performed.
- (d) The internal organization of a trust company or bank, with special reference to social service, group insurance, investigations before employment, and kindred subjects.
- (e) The human equation in the working of a trust department, with special reference to co-operation between the corporate fiduciary and the cestui que trust, including in the latter term guardians of the person and parents.
- (f) Charges for various fiduciary services, somewhat along the lines of the report of the committee of the Trust Company Division of the American Bankers Association on uniformity of trust company charges.
- (g) Methods of increasing business, other than by newspaper advertising, of all departments of a trust company or banking institution.
- (h) The Code of Ethics, being the Tenth By-Law of the Pennsylvania Bankers Association.
- (i) New legislation, including the proposed Banking Code.
- (j) Recommendations for modification or repeal of present statutes affecting fiduciary business.
- (k) Pooling trust investments.

Men of established experience in different branches of corporate fiduciary service attended the meeting prepared to begin the discussions upon particular topics.

John W. Chalfant, chairman of the Trust Company Section, Pennsylvania Bankers Association, and Trust Officer of the Colonial Trust Company, Pittsburgh, presided.

Although no decision was reached at the meeting to continue these conferences from year to year, it was the consensus of opinion of those present that the substantial help received from such meetings justified their continuance.

Watch Legislation

Nathan D. Prince, Chairman of the Committee on Protective Laws, has issued a request to all State Vice-Presidents of the Trust Company Division, to keep in close touch with bills introduced in the different state legislatures of interest to trust companies in order to assist the passage of all bills of interest and value to these companies and to take the necessary action in respect to bills of a harmful nature. So many bills that are positively harmful to the proper exercise of trust functions are being introduced from year to year in the various states that constant vigilance is necessary in order to protect these companies and the public from the enactment of unwise laws.

Unique Protection Afforded Only by the

F&E

Check Writer

INDIVIDUAL IMPRINT

BANKERS, more and more, are realizing that the F & E Individual Imprint on a check provides not only a unique protection against forgery and duplication which can be obtained in no other way, but also they are appreciating the trade-marking value of this style of imprint—which explains its adoption by an increasing number of leading banks and commercial houses.

***A Design for Your Bank
Submitted FREE***

Upon request on your letterhead we will prepare and send you sketches showing how your special style of name can be utilized for your check imprint—without charge or obligation—sending you also valuable information concerning the protective features of the F & E Individual Imprint.

GUARANTY TRUST CO \$529 AND 65 CTS.

***Ford* CARS \$529 AND 65 CTS.**

Above are samples of individual F & E Imprints

HEDMAN MANUFACTURING COMPANY, 30 E. HURON ST., CHICAGO

HARVARD and BUSINESS

SINCE the close of the war the resources and trained thought of a university have been enlisted in the cause of better business practice.

This is a significant departure from the traditional functions of an institution of learning, and represents a marked advance in the application of economic science to modern business management.

In the past, business lacked a scientific basis for accurate forecasting and hence made haphazard plans with indifferent success. But today it is not necessary to depend on personal experience alone in shaping plans for the future.

A university, with far-reaching facilities for gathering international economic data, and with its unusual equipment for the analysis and interpretation of such information, has undertaken the responsibility of providing this service.

Now American business is offered a dependable forecasting system direct from a university laboratory—system which has proved successful over four of the most troubled years in modern business experience.

*A BOOKLET DESCRIPTIVE OF THE HARVARD
ECONOMIC SERVICE WILL BE SENT ON REQUEST*

HARVARD ECONOMIC SERVICE
280 Wadsworth House
Harvard University, Cambridge, Mass.



SAVINGS BANK DIVISION



Compulsion in Industrial Savings Systems

THE extent to which saving may be made compulsory on the part of employees in industrial and mercantile establishments is the subject of what we believe to be a premature discussion, prompted by a novel experience by a group of western utilities and also by an item recently quoted in a government publication as to a similar plan enforced by law in German cities.

After the formulation of the standardized method which is now being prepared by this Division, it will be worth our while to indicate the methods by which systematic saving on the part of employees will be most substantially encouraged and that will lead to discussion of the extent to which it may be made a condition of employment. However, on this latter point we venture the opinion that it will be difficult and perhaps impossible to expect uniformity.

Success seems to have attended the compulsory plan which was placed in effect last July among the employees in an agricultural section of the middle west by the groups of public utilities already mentioned and it is interesting to learn that about 50 per cent. of the employees are investing in the preferred securities of the employer's corporation, 30 per cent. are investing in building and loan association stock, the remaining 20 per cent. depositing in savings accounts in banks. The last two proportions may be explained by the fact that the bank interest rate is 3 per cent. as against twice that rate on the association stock.

A brief description of the plan is as follows:

All employees are paid monthly by check, accompanying each check is a card for report which must be returned by the twentieth of the same month or the check for the following month will be withheld until such report is received.

That report is expected to show that at least 10 per cent. has been saved and that it has been deposited or invested safely. Money placed in "wild cat" promotion schemes is not credited as savings and any employee investing therein must also save his 10 per cent. according to the rules of the compulsory committee.

The project is supervised by a committee of seven leading officials and bankers, known as "Savings and Investment Committee of the Associated Companies." That committee has authorized the use of all or any part of these savings in capital stock of the employing company, government securities, bank investments or savings accounts, or building and loan association stock; or not to exceed one-half of the monthly savings may be invested either on payments of debts contracted prior to July

1, 1922 (when this system was installed) or on a home, on furniture, on life insurance or on musical instruments. Any other investment is to be reported by giving a description which includes the interest rate and names of persons or companies with whom made and to whom payments are made and also the balance due. Any investment so reported is then considered for approval by the supervisory committee.

A direct contact with the employees is also maintained by persons in the field who explain the plan, teach the use of the budget books which are furnished by the employer and help those who find it difficult to comply with the requirements.

The 10 per cent. was selected as the measure of savings because salaries had not been reduced along with the cost of living. Furthermore as the companies undertook this project in part for the purpose of having their employees recognized as thrifty, debt-paying persons, it is said to be quite likely that the minimum requirement of 10 per cent. will be increased if the average individual savings continue to rise as has been observed since the plan was inaugurated. The companies were already providing insurance of from \$500 to \$1500 with larger sums for accidental death, and also with sick benefits and vacation privileges at the company's expense.

School Savings Method

The manual on school savings banking with the method approved by this Division will not be available until about the end of April when it will be issued as a bond volume of over 200 pages.

Earlier completion of the work of preparation and publication was anticipated but the delay is expected to be for the benefit of all concerned.

The "A. B. A. Method" will be explained in detail, with illustrations of all necessary forms. Other chapters will be contributed by economists, bankers and educators both on the purposes and on various special phases of this educational project.

The volume will be sold at a moderate price, probably three dollars. Banks may file their orders now (without remittance), for further particulars, pending publication of the book and descriptive circular.

Postal Savings

The balance on deposit in the postal savings system on December 31 was \$132,282,000, a decrease during December of \$820,000.

The balance in four post offices in

New York City (viz., New York, Brooklyn, Staten Island and Long Island City) was \$56,851,000.

Redemption of War Loans

Recent advices from the Treasury Department show that about \$135,000,000 of the Victory bonds called for redemption on December 15 and \$225,000,000 of the War Savings Certificates which matured on January 1, have not been presented for payment.

These figures are not final as there is doubtless a considerable volume of redemptions in process and reports from post offices are not complete.

Of the Victory notes, \$702,000,000 of those called were outstanding on December 1 and about \$565,000,000 have been retired.

Of the War Savings Certificates, about \$625,000,000 matured on January 1 and about \$404,000,000 have been redeemed, including certificates amounting to about \$32,000,000 which were exchanged for Treasury Savings Certificates of the new series.

"The matter of greatest concern in connection with these redemptions, both of Victory Notes and of War Savings Certificates," writes Under-Secretary Gilbert of the Treasury Department, "is that the proceeds shall be wisely reinvested and not dissipated in foolish expenditure or in speculative securities. This offers a large field for the savings banks as well as for other organizations interested in the promotion of thrift and saving, and the treasury will, I know, be much interested in any effort which the Savings Bank Division may put forth along these lines."

Treasury Savings Certificates of 1923 were dated January 1 if presented on or before the 15 of that month. They are now dated according to date of exchange.

Thrift stamps may still be cashed with postal funds at any money order office although some postmasters have either refused to cash them or in some cases have stated that the Thrift Stamps no longer have any value.

According to the Post Office Department the Thrift Stamps when affixed to thrift cards, not more than 15 to the card, "are payable to the person presenting them regardless of any inscription on the cards, and no previous notice is necessary."

The postmaster at any money order office is instructed to remit or deposit them as postal cash.

Services to Investors

This comprehensive notice under the heading "Be Careful" appears on the

latest statement of the East New York Savings Bank:

Thousands upon thousands of dollars are lost every day in the year by men and women who are misled into making unwise investments. There are hundreds of fake companies launched by crooked promoters, ever ready to let you in on a "sure thing" if you will act quickly. Their selling talk is a promise of a big income and great wealth to those who invest. It usually turns out, however, that the promoter gets the money and the investor gets worthless bonds or stock certificates.

It is true there are many companies organized and directed by honest men, who are sincere in the belief that they will make good in all they promise. Many such ventures, honestly conceived, involve great risk and many fail.

In such cases the question arises: "Can you afford to risk your life's savings?" It is often difficult for an investor to know whether or not an opportunity is really good or bad.

It is therefore always wise to consult your banker before buying stocks or bonds or making other investments. This bank is your bank, and its officers are here to serve you. If at any time you care to consult with them about any investment, you may do so, without charge and with the assurance that your business will be kept strictly confidential. They will give you the benefit of their best judgment and advice.

Do Young Women Save?

Interesting newspaper comment has resulted from the following advertisement by a Houston bank:

We offer the same banking service to the young woman in the business world as we do the young man.

Yet, invariably he will make use of a savings account, a little later come to us for an investment, soon open a checking account and seek the advice and assistance of our officers in his finances. In short he builds up his credit.

Seldom, does a young woman climb this ladder of credit—not even when "making a man's salary."

Young Women, Why Don't You?

A special writer has used the advertisement as a text for an article from which we have selected the following comment:

For the sale of the salaried girls of our day we are both glad and grateful that there is a bank somewhere in the United States of America that is actually studying the lives of our young women in all their vocations and truly interested in their financial welfare as a whole.

The world at large, even the banker, has not expected much of her, and has shown little interest in her savings account. As a rule the big business concerns, do not expect women, especially girls, to have any financial sense. They are not looking for girls with financial ability, consequently the business girl is not always recognized as soon as her brother.

As we review all the women of the past that we have known the one great reason most of them never saved up a bank account of their own was because they never had anything of their own to save. They may have been allowed money to spend but seldom ever to handle, to manage, to use, to save. No, sir. The average man up to this very day feels that even his wife's money, if she happens to have any from any outside source, is safer in his hands.

While women do most of their work in this world for nothing, and all the money they ever receive is what is placed in their hands to spend. In short, men have been trained to think that it was their right and duty to make the money. Women have been trained to believe it was their right and privilege to spend it, if they could get it.

He starts from the first with a lifetime business career before him. While his sister enters the business world temporarily as a means to some shorter end. And as a rule that is constantly draining her savings account.

If a census could be taken of the boys and girls who are working for a salary in our country and an investigation made of what they do with their money we believe it would reveal the fact that more girls are helping to support their homes than boys in proportion to the number of each drawing salaries. And on top of this we must not forget that most girls receive less for their labor than boys.

The 9 Per Cent Christmas Club

Commenting upon the "9 per cent. Christmas Club" which promises the member both bank interest at 4 per cent. and coupons to the extent of 5 per cent. which will be accepted as cash at any

stores which have agreed to participate in the plan we have the following pertinent comment from a bank which uses the ordinary plan:

The Christmas Club should be intended to get people started saving in a systematic way and then, after they have demonstrated to us and to themselves that they can save, to get them to become regular depositors on a regular account starting that account with all or at least part of the Christmas Club money they have received. The 9 per cent. Club on the other hand aims to get the person to spend every bit of the Christmas Club money as the additional 5 per cent. is given in coupons which have value only when presented against purchases in certain stores which are co-operating with the bank. The plan has caused some feeling among customers who claim that a store serving the public has no right to discriminate against all of their customers who do not do business with a certain bank.

Two Unique Booklets

A depositor who had profited from using the budget system recommended by the Home Economics Bureau of the Society for Savings in Cleveland wrote an account of her experience and pleasing results in such a naive way that the bank has published the story under the title "... my unmathematical soul rejoices."

"Sure Rules for Successful Saving" is a 16 page booklet from the Guardian Savings and Trust Company of Cleveland in which four rules are developed to emphasize the need for a definite object for such deposits to be made regularly as soon as income is received and with a persistency which is not defeated by obstacles.

Monthly Tendency in Savings Deposits

An increase in savings deposit of 2.9 per cent. during the month preceding January 1, 1923 and of 7.6 per cent. during the preceding year is indicated

by 880 banks which hold about one-third of the savings deposits of the country, according to tabulation of the Federal Reserve Board:

Federal District	Number of Banks Reporting	SAVINGS DEPOSITS		Per Cent. Increase During Month	SAVINGS DEPOSITS		Per Cent. Increase Over Last Year
		Jan. 1, 1923 Millions	Dec. 1, 1922 Millions		Jan. 1, 1922 Millions		
1	64	\$1,130	\$1,116	1.2	\$1,069		5.7
2	30	1,807	1,746	3.5	1,704		6.0
3	80	436	419	4.0	420		3.7
4	18	407	393	1.1	378		3.8
5	93	278	276	.7	250		11.2
6	81	173	168	2.4	154		12.3
7	219	827	805	2.6	779		6.2
8	35	124	120	2.1	109		13.8
9	15	83	81	3.1	77		8.5
10	58	94	91	2.5	84		12.1
11	112	86	86	.5	76		13.7
12	75	831	796	4.3	733		13.3
Total	880	\$6,282	\$6,102	2.9	\$5,837		7.6



The Neglected Asset In Your Community

Good Will has long been esteemed a vital business essential. Millions of dollars have been invested in gaining the Good Will of customers and of the public.

But it is only recently that the Good Will of employees toward their employer and their employment has begun to be recognized as of permanent value.

Few employers have ever stopped to figure what the Good Will of their employees is actually worth—what it means in more production, higher quality, and reduced waste.

And that 25% loss of annual payroll

investment would be a conservative estimate.

Do you realize that between a negative and a constructive mental attitude of the employees in your community, there is a difference of approximately two hundred and fifty thousand dollars in productive value for every million dollars of wage?

For considerations of business stability and thrift, the banker should appreciate the soundness of leading the way in emphasizing that the creation and maintenance of Good Will among employees in his community is no longer a visionary dream or a question of sentiment. It is a business duty—and a privilege.

*"The Viewpoint of the Employee is the
Most Neglected Asset in Industry"*

SHERMAN SERVICE, Inc.

Industrial Co-ordination—Production Engineering

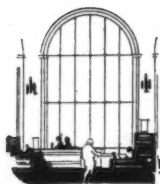
New York
2 Rector Street
Chicago
208 So. La Salle St.
Philadelphia
1011 Chestnut St.

Boston
10 State St.
St. Louis
314 No. Broadway
Cleveland
Park Building

Detroit
First Nat'l Bank Bldg.
Toronto
10 Adelaide St. East
Montreal
Drummond Building

*This is Number 2 of a series of announcements published to convey a clearer knowledge
of the value of cordial industrial relations to employer, employee and the community.*





NATIONAL BANK DIVISION



Three Comptroller's Calls Annually

ON December 28th, last, President Harding affixed his signature to the bill passed by Congress making three the minimum number of calls required to be made by the Comptroller of Currency for bank statements each year. That action on the part of the president concluded the efforts to so change the law which became effective upon that date. With the thorough regular examinations made from time to time under the direction of the Comptroller, and with the authority lodged in that official to order special examinations when such are desirable, it seemed unnecessarily burdensome to require five or more statements each year. That three calls annually are sufficient as a minimum is apparent. The widespread interest in this amendment is evidenced by the numerous inquiries about its effective date.

Immediately upon the bill becoming law there arose speculation as to the likelihood of continuing to issue calls which have been made in years past upon approximately fixed dates. The Government compiles figures for most of its departments by fiscal years, and for statistical and other purposes it would seem that the same would be desirable for national bank operations. So for this reason, and for the purpose of comparison with other figures gathered about the close of a fiscal year, it seems not unlikely that calls will be made as of June 30 of each year. Likewise, it might be found expedient to be able to compile figures for calendar years and to do that accurately a report would be required as of some date near December 31.

These dates will be determined by the Comptroller in the light of all the circumstances, but whatever they may be there is concert of belief that a needlessly bothersome regulatory requirement has been modified without the relinquishment of any necessary supervisory authority.

State Taxes Deductible from Income Taxes

The deductibility of state, county and municipal taxes paid by banks for their shareholders should not be overlooked in the preparation of the 1922 income tax returns due at this time.

Section 234 of the Revenue Law of 1921, enumerating deductions allowed to corporations, is in part as follows:

"Taxes paid or accrued within the taxable year except (a) income, war-profits, and excess-profits taxes imposed by the authority of the United States, (b) so much of the income, war-profits and excess-profits taxes imposed by the authority of any foreign country or pos-

session of the United States as is allowed as a credit under section 238, and (c) taxes assessed against local benefits of a kind tending to increase the value of the property assessed."

The deduction allowed by this paragraph shall be allowed in the case of taxes imposed upon a shareholder or member of a corporation upon his interest as shareholder or member, which are paid by the corporation without reimbursement from the shareholder or member, but in such cases no deduction shall be allowed the shareholder or member for the amount of such taxes."

Tax Exempt Securities

The evil of the issuance of tax exempt securities was clearly apparent to the members of the House of Representatives who voiced their protest January 23. By a vote of 233 to 101 that body adopted the Green Resolution offering a constitutional amendment to put a stop to the practice. The resolution follows:

Joint Resolution

Proposing an amendment to the Constitution of the United States:

RESOLVED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED (two-thirds of each House concurring therein). That the following article is proposed as an amendment to the Constitution of the United States, which shall be valid to all intents and purposes as part of the Constitution when ratified by the legislatures of three-fourths of the several states:

ARTICLE

"Section 1. The United States shall have power to lay and collect taxes on income derived from securities issued, after the ratification of this article, by or under the authority of any state; but without discrimination against income derived from such securities and in favor of income derived from securities issued, after the ratification of this article, by or under the authority of the United States or any other State.

"Sec. 2. Each State shall have power to lay and collect taxes on income derived by its residents from securities issued after the ratification of this article, by or under the authority of the United States; but without discrimination against income derived from such securities issued, after the ratification of this article, by or under the authority of such state."

There is much uncertainty that this resolution will be approved by the Senate prior to March 4, at which time the 67th Congress will end. Even early favorable action by that body would perhaps be too late to send the resolution to the various states promptly enough to be ratified by the legislatures of three-fourths of them before they adjourn their sessions, most of which are biennial. However, once through the National Congress the resolution will be well on its way toward final approval.

Bank President's Enterprises

A decision recently rendered in Missouri establishes the ruling that the President of a National Bank may engage in private enterprises.

A depositor, one Sedgwick, went to his bank, the National Bank of Webb City, and explained to the president, R. L. Walker, that he wanted to buy securities as an investment from the bank, and that he wanted "such as could be recommended to him as gilt edge." Walker then advised him that they had a client engaged in the cattle business in Oklahoma and that they might be able to secure for him some good cattle paper. The depositor's own testimony showed that such cattle paper was obtained by Walker, and not by the bank, and the notes purchased by the depositor were payable to one O. B. Avent, indorsed without recourse by him, and that the three notes purchased by the depositor for \$10,300 each bore the additional indorsement of R. L. Walker.

It developed that the maker of the notes was insolvent and that the security was unsafe. Suit was brought against the bank by the depositor, who claimed that he had relied solely upon the recommendations and representations of the bank and that relying upon same he suffered damages. The court held that the national bank was not liable. It stated that before a national bank could be held liable for fraud and deceit it must appear that representations were made by its president, expressed or implied, and subsequently ratified by the bank. It further stated that the fact that Walker was president of the bank would not prevent him from engaging in personal business enterprises and from carrying on personal dealings. *Sedgwick v. National Bank of Webb City*, 243 S. W. 893.

The average import price of raw silk entering the country in December was \$7.14 per pound; the annual average price per pound in 1913 was \$3.15. America therefore is still paying nearly two and one-half times as much per pound as she paid before the war and is buying about 25 per cent. more.

Wage reductions in Great Britain during the first eleven months of 1922 affected 7,546,000 workers in the principal industries and decreased the weekly payrolls by 4,170,100, December 1, compared to the amount paid at the beginning of the year.

But Will You Get It?

Your Bank will *pay* a considerable sum of money for new business effort during 1923. Will you *get* the same definitely satisfactory result from this money that you do from other investments? No bank gets new business in quantity without paying for it, but many

banks pay for new business without getting it.

If you have decided once for all to take your new business money out of the expense account and put it into the investment portfolio, we would like to show you what we are doing for banks like yours.

Our service covers the development of

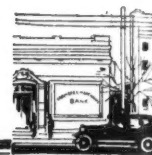
**New Business Departments
Commercial Departments
Savings Departments
Trust Departments
Investment Departments
Safe Deposit Departments
Real Estate Departments**

Take Your Pencil: Check the departments in which you are interested, tear out this advertisement and mail to us.

The Bankers Service Corporation
19 and 21 Warren Street
New York City



STATE BANK DIVISION



Executive Committee Meeting

A MEETING of the Executive Committee of the State Bank Division of the American Bankers Association was held in Chicago, Tuesday and Wednesday, January 16 and 17. The members of the committee present were: H. A. McCauley, President of the Division; J. D. Phillips, Vice-President of the Division, and Messrs. W. C. Gordon (Chairman), Guy E. Bowerman, Geo. A. Holderness, Grant McPherrin, and N. S. Calhoun. Chairman Gordon presided. In anticipation of the fact that the meeting would be devoted largely to questions of agricultural credit, a meeting of the Division Committee on Farm Finance was held at the same time and place. The members of this committee present were Messrs. W. C. Gordon (Chairman), Grant McPherrin, M. H. Malott, H. A. Moehlenpach and Wm. Wayman.

Agricultural Topics

President John H. Puelicher of the American Bankers Association and M. A. Traylor, Chairman of the Association Conference Committee on Agricultural Credits, were in attendance and discussed the subject of pending legislation in Congress, stating that it was the policy of the Association to support the program of the farmers themselves as embodied in a general way in the Capper bill and the Lenroot-Anderson bill, the provisions of which are published elsewhere in the Journal.

Chairman Smith announced the appointment of Prof. D. H. Otis, Assistant Dean of the College of Agriculture at Madison, Wisconsin, as Director of the Agricultural Commission.

On invitation of the Executive Committee, Prof. Otis attended one of the sessions and spoke briefly regarding the prospective activities of the Commission and particularly the work of the State Bank Division in connection with co-operative marketing of farm products, in which he saw a field of exceptional usefulness.

Among other guests present were J. W. Coverdale, Secretary of the American Farm Bureau Federation, and E. N. Hopkins, Director of Boys' and Girls' Club Work, who explained the work of their organizations.

Committee Activities

The Secretary made formal announcement of the death of Dwight M. Armstrong, Chairman of the State Legislative Committee, and the following resolution was adopted:

"The Executive Committee of the State Bank Division deeply regret the death of Mr. Dwight M. Armstrong of Memphis, Chairman of our Federal Legislative Committee. Mr. Armstrong was active in Association affairs and his intelligent interest in the same, as well as his counsel and advice were of great value and assistance to us. His many friends join in extending to the bereaved family, love and sympathy."

Craig B. Hazlewood, a member of the Division Committee on State Legislation, was appointed chairman of the committee in place of Mr. Armstrong. Mr. Hazlewood reported that the committee was working in harmony with the legislative program of the American Bankers Association and that there had been no occasion for any independent action.

C. S. McCain, Chairman of the Division Committee on Federal Legislation, made a similar report in regard to relationship with the American Bankers Association, but further urged Congressional action that would give state banks that are members of the Federal Reserve System the right to act as Government depositories, which right is now confined to national banks.

Chairman Charles de B. Claiborne of the Committee on Exchange reported that there seemed to be substantial support of the McFadden bill among members of Congress, but that the pressure of other business had prevented action on the subject. In connection with Mr. Claiborne's report the Executive Committee adopted the following resolution:

"Resolved, That the Executive Committee of the State Bank Division recommends to the Executive Council of the American Bankers Association a careful study of the question of Federal Reserve banks giving immediate credit on all checks received from their members, the purpose of this resolution being to at least make an effort to settle for all time the perplexing problem of par collections."

Agricultural Credit Legislation

The sentiment of the Executive Committee in regard to pending legislation in Congress on the subject of agricultural credits was embodied in the following statement:

"Realizing that the multiplicity of bills now before Congress indicates a desire

to finance agriculture on a safe and sane basis, the Executive Committee of the State Bank Division of the American Bankers Association is of the opinion that the continuation of the War Finance Corporation for the period of at least one year, the extension of the privilege of rediscount by Federal Reserve banks to agricultural paper of nine months' maturity, and the organization by farmers themselves of associations for the purpose of orderly marketing of their crops, in order that the producers may receive a reasonable profit on their efforts, will enable the banks of the country to care for all credit needs of farmers not now provided for by the Federal Farm Loan banks and the Joint Stock Land banks. We recognize, as viewed by others, that it may be necessary for Congress to pass both the Capper and Lenroot-Anderson bills, or a combination of the two, to furnish necessary agricultural credits."

Postal Facilities

The following resolution was adopted regarding shipments of coin and delivery of registered mail:

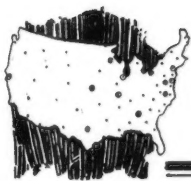
"Whereas, the banks of the United States are now compelled to ship gold, silver and subsidiary coin by express and are desirous of obtaining the privilege of shipping same by registered parcel post in the same manner as is now granted Federal Reserve banks, now therefore be it

Resolved, That the Executive Council of the American Bankers Association be requested to appoint a committee to meet with the Postmaster General and endeavor to secure a proper regulation granting this privilege to all banks.

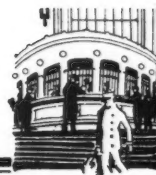
"Whereas, members of this Association generally are renters of boxes in the post office in the town in which they are located, and

"Whereas, the responsibilities of the Government ceases upon the delivery of such registered mail, now therefore be it

"Resolved, that the appointment of a committee by the Executive Council of the American Bankers Association is hereby recommended to meet with the Postmaster General to endeavor to secure a regulation enabling banks which are renters of boxes in post offices to have registered mail delivered at the bank by a representative of the Post Office Department."



CLEARING HOUSE SECTION



Interchange of Credit Information

THE interchange of credit information is something which appeals to nearly every bank officer who considers the Group Examination plan. It is only one of the benefits growing out of examinations but it quickly draws the members into closer relations with each other and leads the way to fuller expressions of cooperation. For this reason, and, also, recognizing the value of Bureaus of Credit in themselves, the Clearing House Section earnestly advocates their installation in communities where the banks are not ready for complete Group Examinations. The following suggestions may be of value to State Secretaries and others who are interested in forming such Bureaus.

Organization

The bureau should be operated by a permanent organization. The ideal situation is where there is a County Bankers Association, holding regular meetings and having strong and aggressive men in the customary offices, such as president, vice-president and secretary-treasurer. Where the organization has a formal constitution and by-laws the rules governing the bureau should be incorporated therein. A small committee, consisting, perhaps, of the officers of the association, should have direct oversight of the Bureau. The manager of the bureau should be elected by a majority vote of the members and his compensation fixed in like manner. While his actual work is largely clerical in nature, the manager should meet the strictest requirements as to integrity and discretion. It will perhaps not be agreeable in some places to have an employee of any of the interested banks handle the confidential reports from the other banks. Where that is the case, some one, such as a bank examiner, an employee of a nearby city clearing house, a public accountant, some county official or in fact, any reliable person with a knowledge of office work, may be elected.

Expense

It is suggested that the yearly expenses of the bureau be divided among members in proportion to their total loans as shown in their last published statement preceding the annual meeting. An assessment should be made at once to give the bureau an operating fund.

Operation

(1) Material. It is probable that at the beginning it will be sufficient for the members to furnish the manager from time to time complete lists of their borrowers, giving names, addresses and total amounts owed. Information as to borrowers liability as indorser for others and as to the maturity and security in any form behind each note is important to an examiner and is necessary to make the bureau complete, but there may be objections to including these things at first and it is suggested that the initial plan be so simple it cannot fail to operate, and other desirable features may be added from time to time.

(2) Form. The information may be sent in any convenient form. It is suggested that cards or slips of paper of a uniform size be provided so that they may be easily sorted, handled and filed by the manager. New cards should be used for each report and should be dated and marked with the name of the bank or a code number which indicates the bank's name to the manager. The manager will put the cards from all banks into one file arranged alphabetically.

(3) Certificate. The accuracy of reports cannot be determined without examinations of the banks, but it is believed that a certificate something like the following will make for care on the part of the Members.

"I hereby certify that the enclosed is a full and correct list of the loans of this bank at the close of business January 2, 1923, and that the total as shown by adding machine list attached corresponds with that shown in our statement of that date." Signed John Smith, Cashier. (If only loans over a fixed amount are reported, the wording of the certificate would be changed to correspond.)

(4) Frequency. It is probable that the number of duplicate borrowings found in the first report will be a good guide as to how frequently reports are needed. While quarterly or even monthly checkings would often be worth while, it is thought that the original plan should contemplate full lists only twice a year with an arrangement for special reports as is described below. It would be well to have all signed letters sent by registered mail and all other communications to the bureau addressed merely to a Post Office Lock Box.

Distribution of Information by Manager

(1) Regular. When reports from all members are received and the cards sorted, the Manager can readily prepare advices to those members who are interested in each duplicated borrowing. Such advice may be as follows:

January 15, 1923.

Number 10
John Smith, R. F. D. No. 1, Jonesboro, January 2, 1923, \$2500.00.

This tells the First National Bank, Springfield, Arkansas, (Number 10) that John Smith is reported to have been indebted to members on January 2, 1923, to the total amount of \$2500.00 including his debt to Number 10.

(2) Special. It may be that a member will have special reason for desiring information regarding a customer between the dates for regular reports. It is suggested that he may apply in writing to the manager as follows:

Manager,
Post Office Box 71,
Portland, Arkansas.
John Smith, R. F. D. No. 1, Jonesboro,
\$500.00
Canvass.

Number 10.

Which would mean:

April 10, 1923.

Manager,
Jackson Co. Credit Bureau,
Portland, Arkansas.
John Smith, R. F. D. No. 1 Jonesboro, is indebted to this bank to the amount of \$500.00 (or has made a bona fide application for loan of \$500.00). Please canvass all members that report having loaned this customer and advise his present total debt.
First National Bank,
Springfield, Arkansas.

The manager can then send an inquiry as follows:

Number 15.
Inquiry as of April 10, 1923.
John Smith, R. F. D. No. 1, Jonesboro.

Which would mean to the reader:

A member, to whom the following person is indebted (or to whom application for such loan has been made), asks for special report of the borrower's total debt on April 10, 1923.
John Smith R. F. D. No. 1, Jonesboro.
You will receive the usual report when this investigation is completed.

When all replies are received the manager can send the same form as on a regular report to each bank inquired from. The possibility of charging for a special canvass by the manager may be considered later if it seems proper.

The forms outlined above need not be used. In fact, it may be thought best not to do so. However, they suggest arrangements whereby a member



CALIBER

OFFERING THE
SEVEN
ESSENTIALS
OF A
BANKING HOME

Safety
Spirits
Experience
Caliber
Convenience
Completeness
Prestige

Qualified by size, resources and breadth of understanding for serving the major enterprises of the Middle West — maintaining still that personal relationship of the banker with the patron which means so much to most business men.

The B/L Bank in America's Freight Center

UNION TRUST COMPANY

Madison and Dearborn Streets, Chicago

making inquiry does not obtain information from others without giving in exchange that which he has. As the operation of the bureau goes on, it is predicted these precautions will become unnecessary.

Caution

Section 23 of the Federal Reserve Act provides "No examiner—public or private—shall disclose the names of borrowers or collateral to loans without express permission in writing of the Comptroller of the Currency or the board of directors of such bank," and in order to fully protect the examiner, there should be furnished him a resolution from the board of directors of each of the banks, authorizing him to disclose the names of borrowers and the collaterals to loans, with certain restrictions, to all of the banks, members of your Bureau of Credits.

Expansion of Plan

Unquestionably the use of bureaus of credit by country banks will soon result in many plans for fuller use of the manager's office and information. Mortgages may be of public record yet escape the attention of some member and it may be found desirable and practicable to include the whole story of each loan in the credit exchange. In a midwestern city of 10,000 population, the five banks each send an officer to a monthly meeting where all duplications in borrowings are discussed freely. The Clearing House Section will not attempt to go into a full discussion of these possibilities, but will be glad to give publicity to any reports of successful experiments along this line which may be sent to this office.

The above article has been prepared by C. W. Allendoerfer, Vice President, First National Bank, Kansas City, Mo., and Chairman, Executive Committee Clearing House Section, American Bankers Association.

Among Those Owning:

A Company is known [by the stockholders it keeps.

The American Telephone & Telegraph Co. which derives most of its revenues from its investments in the Bell System, includes among its stockholders many of the big and conservative investors of the Nation, but it has also an army of small investors. It has more than 245,000 stockholders with an average holding of only about 26 shares.

A lineman in Seattle; a supervisor in New Orleans; a night watchman in Boston; a clerk in Philadelphia—thousands of these telephone workers own stock in the System which they serve.

This is a surety against inefficiency and waste. It is a pledge of safety.

A. T. & T. pays 9% dividends on over \$700,000,000 of stock outstanding. Today the stock can be bought in the open market to yield approximately 7%. Full information sent on request.



"The People's Messenger"



BELL TELEPHONE SECURITIES CO. Inc.

D.F. Houston, Pres.
195 Broadway NEW YORK

Corporate Trustees

Speakers' Suggestions by the Committee on Public Education American Bankers Association.

Copyright, 1922, American Bankers Association.

THERE is a service rendered by trust companies and many other banks, which, sooner or later, is needed by every person owning property. Under our law, every person has a right to own property, and to transfer it to others. Property may be passed on as a gift, during the lifetime of the owner. Suppose, however, a property owner dies. What then, becomes of his property?

The Right to Make a Will

The law permits every person of legal age to make a will, designating to whom his property shall go, and whom he desires to manage it after he dies. Where no will is left, the law declares that a person's property shall be used first to pay his debts, and that the remainder, if any, shall go to his next of kin. The law states exactly who is to receive the property, and in what proportions. If a person fails to make a will, his heirs, in order to pay his debts and distribute what is left among the members of his family, may have an individual, or better still, a trust company, or qualified bank, appointed administrator. Where a will is left, the one named to manage the estate is called the executor.

It is the duty of the administrator or executor to take charge of all money in the bank, stocks, bonds, real estate, crops growing in the fields, and all other property on hand at the death of the owner. Part, or all, of the property may be sold in order to pay the debts and the expenses of settling the estate. Every debt must be taken care of before distribution is made.

Duties of Guardian

When a child under legal age inherits money or property, there must be a guardian to receive the money or property and manage it in the interest of the child, until he becomes of age. A parent can name a guardian for his children in his will, but if he fails to make a will, the court will appoint a guardian to hold and invest the child's property. A bond must be given guaranteeing the safety of every dollar. It is the duty of the guardian to use this money for the child's maintenance and education. The court insists that a guardian must first of all provide proper food and clothing. His next duty is to see that the child obtains a good education. By consent of the court, the guardian may spend whatever is necessary in order that the child, his ward, may be equipped for life.

National Bank of Commerce in New York

Established 1839

STATEMENT OF CONDITION DECEMBER 29, 1922

RESOURCES	LIABILITIES
Loans and Discounts. \$249,939,708.52	Capital Paid up.....\$25,000,000.00
Overdrafts, secured and unsecured 32,857.99	Surplus 25,000,000 00
United States Securities 90,923,511.93	Undivided Profits..... 12,437,882.87
Other Bonds and Securities 7,687,139.68	Deposits 426,621,196.43
Stock of Federal Reserve Bank 1,500,000.00	Dividends unpaid ... 10,992.50
Banking House 4,000,000.00	Reserved for Interest, Taxes and other Purposes 6,930,942.56
Cash in Vault and due from Federal Reserve Bank 42,022,643.26	Unearned Discount .. 1,520,249.04
Due from Banks and Bankers 20,159,870.70	Letters of Credit.... 11,206,670.32
Exchanges for Clearing House 81,958,849.14	Acceptances executed for Customers 25,790,655.70
Checks and other Cash Items 2,174,829.83	Acceptances sold with our Endorsement.. 1,742,381.28
Interest Accrued 1,323,680.62	
Customers' Liability under Letters of Credit and Acceptances 34,537,879.03	
\$536,260,970.70	\$536,260,970.70

PRESIDENT

JAMES S. ALEXANDER

VICE-PRESIDENTS

LOUIS A. KEIDEL;
DAVID H. G. PENNY
JOHN E. ROVENSKY

FARIS R. RUSSELL
STEVENSON E. WARD

SECOND VICE-PRESIDENTS

HARRY P. BARRAND
THOMAS W. BOWERS
LOUIS P. CHRISTENSON
JAMES I. CLARKE

OSCAR L. COX
ELMORE F. HIGGINS
WALTER E. LOVBLAD
ARCHIBALD F. MAXWELL

FRANZ MEYER
EDWARD H. RAWLS
EVERETT E. RISLEY
HENRY C. STEVENS

CASHIER

ROY H. PASSMORE

AUDITOR

PAUL B. HOLMES

DIRECTORS

JAMES S. ALEXANDER
JOHN W. DAVIS
HENRY W. de FOREST
JOHN T. DORRANCE

EDWARD D. DUFFIELD
CHARLES E. DUNLAP
HERBERT P. HOWELL
JOHN G. SHEDD

VALENTINE P. SNYDER
HARRY B. THAYER
JAMES TIMPSON
THOMAS WILLIAMS

When the child becomes of age, the guardian must account to the court, showing in detail how he has managed his ward's estate. The balance remaining on hand is then paid to the ward. Experience has shown that, as a rule, a corporate guardian is more satisfactory than an individual. The growing practice, therefore, is to appoint a trust company or qualified bank as guardian of the estate of a minor. Officers of the trust company or bank supervise the buying of clothing for minor chil-

dren, arrange to have them sent to good schools, and see to it that they are provided with wholesome food and environment, so that they may grow up to be good, strong, healthy, and useful men and women.

Services of a Trustee

We have spoken of executors, administrators, and guardians. There remains trusteeships. First of all, what is a trustee? We have seen that an

executor or administrator is one who settles up the estate and, after paying the debts and expenses, turns over the remainder to those entitled to receive it. A trustee is one who holds or manages property for the benefit of others. As a rule, a trustee is named in a man's will to administer his property upon his death, when he can no longer work for his wife, children, and others near and dear to him. The trustee manages the property for their benefit. Every man who has proper regard for his family desires that they shall be protected during their entire lifetime. Most wives and mothers find their chief interest and usefulness in the home. They feel unable or reluctant to master the details of business. Women, who inherit money, which has been accumulated during a lifetime by a husband or father, are often the victims of designing persons who succeed in taking from them the property inherited. Lacking business ability and experience, these women are likely to make unwise investments, and thus lose their inheritance. Therefore, the wise course is to appoint a trustee, who will carefully manage the estate for the benefit of the heirs.

The Corporate Trustee

Formerly, people appointed their personal friends to act as trustees and manage their estates. There is always the chance, however, that the friend may die, become ill, or go away on a vacation. He may abuse the confidence placed in him, or he may lack business ability. He may be busy with his own affairs and have little time to attend to an estate. One can readily see, therefore, that a well-organized, financially responsible, perpetual corporation under strict supervision of the state, such as a trust company or a qualified bank, is better equipped to act as trustee of estates than is an individual. Corporate trustees are organized for this very purpose. They never die. They do not go on vacations. If one of their officers is absent, another officer takes charge of his duties, thus providing continuous service.

But, you ask, do not corporate trustees sometimes fail? Yes, this has happened. The safeguard lies in the fact that, under the law, trustees must keep the money and other property of each estate separate and apart from the money and property of every other estate, and separate and apart from their own money. You see, therefore, that if a corporate trustee should fail, the estates under its care are still secure. Owing to this requirement, each estate is preserved intact and secure. In very few instances has any trust company ever lost a dollar of the trust funds committed to it.

Some may say that the corporate trustee is lacking in personal touch with people, that it does not sympathize with the troubles, sorrows, and difficulties of families, that it does not concern itself about these matters, as would an individual. The answer to this is that the men who are officers of a trust company or bank possess the same sympathy and feelings as do other



*The New Hotel
Gardner, Mass.*



*Niagara Falls
New Hotel*



*The New Hotel
New Britain, Conn.*




*The New Hotel
Jamestown, N.Y.*

*Hotel Carrillo
Santa Barbara, Cal.*

Five New Hotels in Fifty Days

~~~~~

Within the past fifty days, this corporation has financed these five modern hotels, to cost \$3,380,000, through the same unique plan that has put through twenty-three similar projects in the past twenty-one months.

To the Banker of any city needing modern hotel facilities we will send, gladly, a copy of "Modern Hotel Financing," our latest booklet on this interesting subject.

~~~~~

The Hockenbury System Incorporated

Penn-Harris Trust Bldg., Harrisburg, Penna.

people. Friendliness is a part of their training. Experience shows that they have been as uniformly kind and sympathetic in the care of those for whom trusts were created as individuals have been.

It frequently happens that a man who, by his own efforts, has built up a good business during his lifetime, wishes to have the business continued after his death, for the benefit of his family,

or until a son grows to manhood. He has the right, under the law, to give the business into the hands of a trustee, to be operated under such conditions as he may name. In trusteeship of this kind, the trustee is not expected to make good, out of his personal estate, the losses which might occur in carrying on the business, although he is relied upon to use diligence and good judgment. In other words, the trustee takes

the place of the man himself, in order that the business may be kept in the family. Sometimes, also, it is a good plan for a man to protect his interest in a partnership in the same way, in order to keep his estate from being sacrificed. In caring for a business, the corporate trustee is preferable for the reason that a group of experienced business men will guard the interests of the owner, will carry out his wishes impartially, and will bring their combined judgment to bear upon all business problems as they arise. Where special financing is needed, the corporate trustee has at hand the means for providing it.

Broad Experience Essential

Aside from the question of better service in general, the corporate trustee has today become practically a necessity. Formerly, it was a comparatively simple matter to settle a man's estate. It was not even necessary, in many cases, to submit an accounting. Heirs could often agree among themselves as to how the property should be handled, and could thus keep the facts within the possession of the family. Now, however, the state and federal governments make careful inquiry into all estate matters. Inheritance taxes must be paid. Income taxes must be accounted for. The laws governing these taxes are very complex. Hence, broad experience is essential in the handling of the many details involved. Unless proper methods are used, the trustee is very likely to meet with difficulty. The work must be handled so that, when reviewed by state and federal authorities, it may be above censure and penalty.

Nowadays, a man of business ability hesitates, even under the will of a friend, to accept a trusteeship. His responsibilities are great. He may be tempted to favoritism. His freedom is restricted. Often when he wishes to be away, the duties of the trusteeship require his presence. His services must cease sooner or later.

Hence, trust business is growing rapidly. Each year a greater number of persons create trusts by will. Trust companies and banks authorized to perform similar duties are being called more and more into this service, and their officers are being trained in all of the many principles and duties involved. Therefore a trust company or bank should be chosen as executor, administrator, guardian, or trustee, because it specializes in the management of property, and in the settlement of estates.

Member American Bankers Association

Put the above sign on the windows of your bank and under your newspaper advertisements. It will help the Association and likewise help yourself.

Why Banks Use the "Brandt"

Ask any of your neighboring bankers, among our 26,000 endorsers, why they use the Brandt Automatic Cashier. Their quoted messages are surely evidence that will cause you to measure the advantages of the Brandt "instant service" versus the old "head and hand" method of making change.



Speed

"They are time savers as change can be made quickly." The Brandt respects the customer's time as well as the Banker's. Simply press one key with one finger and the desired change is paid instantly.



Accuracy

"We have never known our Brandt to make incorrect change." The Brandt has brains and fingers of steel—it does not make mistakes. All worries over errors are eliminated.



Simplicity

"It is very simple to operate—nothing complicated about it." Anyone who can read figures can operate the Brandt. It is simple as pressing a buzzer button.



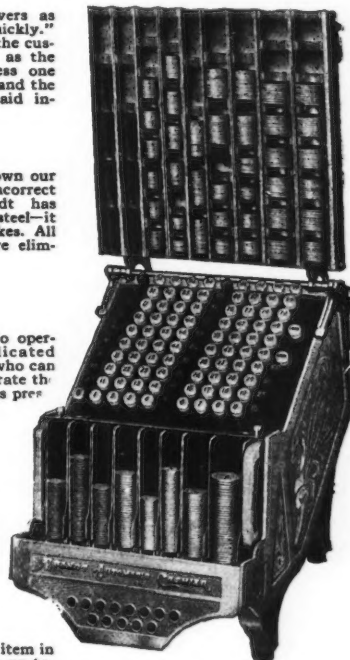
Durability

"Have used Brandt Cashier for ten years or more." "There's nothing about them to give trouble of any kind." Brandts are guaranteed for Ten Years.



Service

"The Brandt is a big item in our endeavor to give up-to-date service to our customers." Service is the chief commodity of a bank. There are over 26,000 Brandts in use. Backed by over 20 years experience.



Write for your copy of Booklet—
"When Minutes Mean Dollars."

The New Improved
Brandt Automatic Cashier

Standardized by Bankers Everywhere

Serving Bankers, Retailers, Paymasters

-----Brandt Manufacturing Company-----

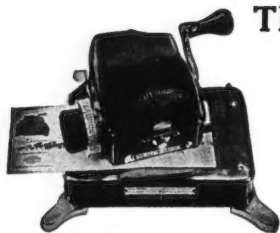
Executive Office and Factory, Watertown, Wisconsin

Send copy of Booklet, "When Minutes Mean Dollars"

Name

Bank

Address



Equipped with Automatic
Self-Inking Device

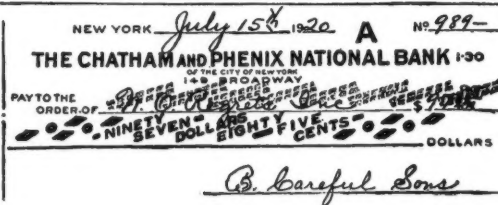
THE SAFE-GUARD CHECK WRITER—100% PROTECTION

THIS IS THE ONLY MACHINE THAT

Will Protect ALL the
Essential Parts of Your
Check—The Paying Line
—The Payee's Name—
The Numerals—and Will
Prevent Dangerous Two-
Line Checks.

Write for further details regarding
this "Double Lock System" to

B. CAREFUL SONS

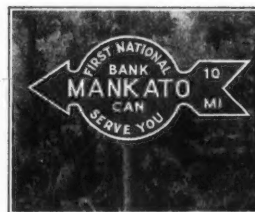


Unless You Use This Double Lock System Your Bank Account is at the Mercy of the
Check Manipulator.

- THE SAFE-GUARD CHECK WRITER CO., Inc. - 3 BECKMAN ST.
NEW YORK CITY

Member American Bankers Association

Put the above sign on the win-
dows of your bank and under
your newspaper advertisements.
It will help the Association and
likewise help yourself.



LITTLE GIANT BANK DIRECTOR

*Striking, Enduring, Digni-
fied, Cheap and Effective
Advertising*

A heavy semi-steel casting.
Sold to one bank only in any
town or city.

They bring local, as well as tour-
ist, business if erected at principal
crossings, junctions at prominent
points on highways entering your

city. They also advertise the city in which you live.
They are furnished with any lettering desired. Can also be supplied for mer-
chants or any other class of business.

LITTLE GIANT COMPANY

239 Rock St.

Established 1876

Mankato, Minn., U.S.A.

NO ORDER TOO LARGE AND NONE TOO SMALL
FOR OUR PAINSTAKING ATTENTION



AMERICAN BANK SUPPLY CO.

OPERATED AND CONTROLLED BY
THORNTON-LEVEY CO.

BANK OUTFITTERS

INDIANAPOLIS, INDIANA, U. S. A.

All necessary supplies for every make of posting machine.

Maximum quality at minimum prices.

STANDARDIZED BUFF STATEMENT SHEETS, 11"x11" - \$8.50 PER M.

STANDARDIZED BUFF LEDGER SHEETS, 11"x11" - 11.00 PER M.

WRITE FOR SPECIMEN SHEETS

The Condition of Business

EVERY January the newspapers and periodicals of the country publish a series of articles summarizing the events of the year just past and looking forward into the future. In the light of the outcome of the year 1922, it is interesting to turn back to the prophecies which appeared in January, 1922. At that time the country had just begun recovery from a serious business depression, and the business reviews bear the imprint of the depression. No one dared to hope for the early return of more than moderate business or industrial activity.

Several quotations from prominent men reveal the more optimistic phases of the outlook current at that time:

"Better general business conditions and more satisfactory results as a whole can reasonably be expected for 1922 as compared with 1921. Due to the further readjustments that must be made in many aspects of trade, no great or speedy revival is likely."

"I look for a moderate and irregular recovery."

"All in all, there seems little reason to believe that the tentative revival in business which was first noted last summer will relapse into a new depression. On the other hand, there is little to warrant the hope that the pace of improvement will soon become rapid."

"There has been a noticeable tendency toward improvement. Barring unforeseen developments, there is no reason to expect that this improvement should not continue during the coming year."

The facts about 1922 business as they are now available show that the reality has surpassed the anticipation of even the most sanguine of the prophets of a year ago.

Business Now Normal

As the new year opens, a good case can be made for saying that business is just about back to normal. It is necessary to define what is meant by normal. Too many business men have been thinking of the greatest activity of the fall of 1919 or the spring of 1920 as normal. A fairer definition of normal is good average business, which is exceeded in periods of great prosperity, and below which business dips in periods of adversity. Of course a definition of normal must also take account of the natural growth in the country's business. The amount of production and trade which was good business in 1910 would not be good business in 1923, because the country has grown and its power to consume goods has grown even faster than the population.

A number of statistical bureaus have made computations of the rate of growth in different industries and regularly publish comparisons between current production and manufacture and what they estimate would be normal.

The Harvard Committee on Economic Research has computed that recent manufacturing of the following groups of commodities has been above normal:

Iron and Steel Food
Lumber Footwear
Cotton and Wool Housefurnishings
Leather Books and Papers

The following groups are computed to be less than 5 per cent. below normal:

Paper
Tobacco
Clothing

A computation for all lines of manufacture combined is almost exactly at the normal line.

Iron and Steel

The fact that iron and steel production may be said to be above normal is of peculiar significance because iron and steel enter into such a multiplicity of products. A recent article in the *Iron Age* shows the uses of iron and steel in terms of the percentage of the product which they consumed in 1922. Railroads used 22 per cent. of all steel products. The full list follows:

	Per Cent of Total
Railroads	22
Building	15
Automobiles	10
Oil, water, gas and mining.....	10
Agriculture	4
Tin plate	4
Exports	7
All other	28
	100

The fact that 28 per cent. of the total cannot readily be divided into component parts illustrates the diversity of the products into which iron and steel enter.

The rapid climb of iron and steel production from the most severe depression in the history of the industry, during the summer of 1921, back to normal, reflects more than anything else the activity in three major industries—railroads, building, and automobiles. Railroad orders for equipment during 1922 were larger than for a number of years previous. The building boom was phenomenal in its scope, supported as it was by the shortage created by several years of greatly restricted operations. Automobile output for 1922 of nearly 2,600,000 cars was the largest in the history of that industry by a considerable margin.

Freight Traffic

Another series of figures which reflects in a broad way the changes in industrial and business activity is freight traffic, particularly if shipments of coal are excluded. Aside from coal, the freight movement in 1922 was larger than in any previous year, and the weekly movement in the latter weeks of the year,

including coal, was larger than in the corresponding period of any preceding year.

The Case of the Farmer

Any discussion of business conditions sooner or later has to include the question, "How about the farmer?" The farmer had good crops this year at better prices than a year ago, and prices of farm products are still rising relative to other prices. But on the basis of prices and crops alone it is not possible fully to estimate the farmer's condition. There are too many other factors like freight rates, obligations for past commitments, frozen bank loans, etc. The best test is the way the farmer is spending his money, and there are facts on that point. Wholesalers of farm implements did a tremendous business in December, more than twice as large as in December, 1921. Sales in December of mail order houses, which cater largely to the farmer, were 35 per cent. ahead of last December.

The recently published balance sheet of Sears Roebuck adds to the story. In 1921 this company reported a deficit of \$16,400,000. Last year they made a profit of \$5,400,000. Their inventories were reduced \$12,000,000, and their accounts receivable another \$12,000,000, indicating that customers were not only buying but were paying their bills.

Profits Increasing

The annual reports of a good many business concerns are closely similar to the Sears Roebuck report. Business is beginning to show a profit. This profit is in many cases the result of more efficient operations. Inventories are reduced; a larger volume of work is done per employee; overhead is cut to the minimum.

Basis for Prosperity

In the business situation as it stands today we have the beginning of prosperity. When such a recovery from depression to normal business has occurred in the past, it has usually been followed by genuine prosperity. But there is no certain assurance that the experience of the past will be repeated now. Each series of business events is unique and is shaped by a large number of only partially known and partially understood influences. Among the influences in the present situation which may be thought of as danger points may be listed the following:

The European situation
Coal strike
Labor shortage
Transportation difficulties
High prices
Credit inflation

All these are elements in the situation which the business man and banker will need to watch carefully during the coming year.

European Situation

It has been said a great many times that we cannot have full prosperity in this country, or even moderate prosperity, until conditions in Europe have

reached a better state of adjustment. The experience in the past year has to a certain extent disproved the truth of this saying. We have reached a very substantial degree of business activity, while conditions in Europe remain disturbed. An explanation may be found in two developments abroad which have enabled us to trade with Europe to an extent which appeared unlikely a year ago.

In the first place the British situation has taken on an entirely new aspect during the year. The pound sterling has risen in the year from about \$4.20 to \$4.68. The movement reflects reduced note circulation, reduced prices, and a balanced budget in England. As an accompaniment to the rise in sterling, England has begun interest payments to the United States, her foreign trade has improved, her shipping has become more active. A sound position of the financial markets of London is an important stimulus to world trade.

A second favorable factor is found in the extent to which foreign countries have been able to buy our exports, particularly our exports of foodstuffs in spite of their economic instability. A year ago it was widely believed that the flow of gold to this country had about reached an end, that all the sources had been exhausted. But the gold received in 1922 amounted to \$275,000,000 and our total exports were only slightly smaller than the year before.

As the new year begins a number of the countries of Europe are better able to trade with us than they were a year ago, as their exchanges are much closer to par. On the other hand, France, Italy Germany and Austria are in no better position, and they cannot continue forever to pay for goods in gold or makeshift credit. Any changes in the economic position of these countries will be an important influence in our business situation.

Transportation

The events of recent weeks give a more cheerful aspect to our domestic transportation problems, car shortage has decreased in the face of extraordinarily large car loadings for this time of year. Greater efficiency of operation has been evident. Cars have been more heavily loaded, have moved further each day, and equipment is in somewhat better repair.

The railroad earnings figures for 11 months of 1922 show an annual rate of 4 per cent. on property valuation as compared with a 3.3 per cent. rate for the year 1921. This gain was made in spite of larger expenditures for maintenance, and in spite of disappointing earnings during the summer months because of the shopmen's strike.

Coal Strike

The announcement of a wage agreement in central bituminous fields providing for the continuance of present wage rates until April, 1924, makes a coal strike this spring much less probable. The coal situation is far from settled, however.

A preliminary report by the government coal commission emphasizes the fundamental character of the difficulties.

"There are more mines and more miners than the needs of the country require. This condition of over-development is the underlying cause of the instability of the industry. We do not know accurately the extent of the burden, but it may well be measured by the



12,762

People in one Day

By actual count, entered and left the First National Bank Building in Detroit. This was an ordinary, average business day. It was only a few months after the opening of this new twenty-five story bank building on a historic site at the heart of the city. Bankers in other parts of the United States can gather from these figures something of what Detroiters think of the efforts of the First National group to serve them well.

(Formerly First & Old Detroit National Bank)

FIRST NATIONAL BANK

DETROIT MICHIGAN

The First National Bank, the Central Savings Bank and the First National Company of Detroit, are under one ownership.

cost of keeping in the industry an excess of perhaps 200,000 miners and their families and the excess investment in the mines."

Another difficulty lies in the seasonal nature of coal mining, because of the concentration of coal shipments in the fall of the year and the lack of provision for storage.

"There can be no satisfactory agreement as to wage rates, and no lasting peace between operators and men, unless steadier employment can be provided. There can be no satisfactory solution of our transportation problem so long as the railroads are subjected to sudden peak loads of coal traffic at the season when the demands of agriculture and industry are at their height."

The preliminary report of the commission recommends no definite remedies but proposes continued exhaustive study of the problem.

Labor and Its Wages

A shortage of labor or such high wage rates as to curtail industrial profits are possible factors to be reckoned with in the coming year. Employment has continued to increase and there are some shortages of common labor and certain types of skilled labor, particularly in the building trades. Steel trade reports indicate that, in some plants at least, shortage of labor and transportation difficulties make it difficult to keep up with orders.

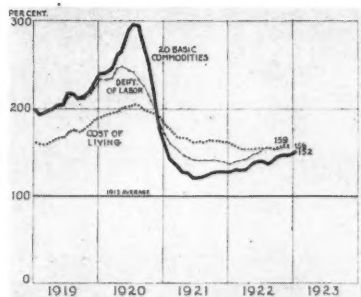
Prices

The current price trends are summarized in the accompanying chart prepared by the Federal Reserve Bank of New York. Prices of basic commodities have been rising for a year and a half. The Department of Labor index of all kinds of wholesale prices has been rising for a year and is 13 per cent. higher than a year ago. In contrast the cost of living index representing retail prices has risen only about 3 per cent. This is partly because it never fell as low, and partly because retail prices always lag behind wholesale.

A question which the merchant is now asking himself is how much of recent increases which he has had to pay in wholesale prices can be passed on to the consumer without arousing what is technically termed "buying resistance." It is a question which is likely to be put to the test in coming months, and the answer will be an important factor in 1923 business.

Money and Credit

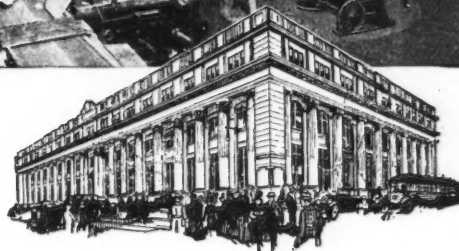
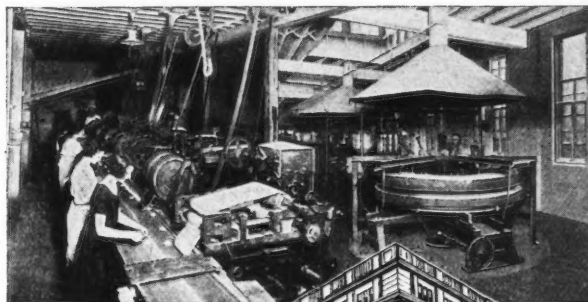
A final important influence on business in the coming months is the volume of credit. There appears to be little likelihood of a credit shortage.



CHANGES IN THREE PRICE INDEX NUMBERS

There is possible danger of too free credit. The huge amount of gold which the country has imported from abroad, about \$1,700,000,000 net since 1914, could, without proper credit control, become the source of rapidly mounting prices and wages, currency inflation, and speculation.

All these factors will have their part in determining whether 1923 will witness a continuation of the progress made in 1922. At the moment no one of the possible dangers is immediately threatening, but careful business men and brokers are facing the new year with an optimism tempered by caution.



Ice Cream Cones and Pretzels

A UNIQUE line of manufacture in which St. Louis leads all other cities. These crisp little pastries are produced here in immense quantities and under immaculate sanitary conditions.

Thousands of progressive St. Louis manufacturing concerns secure from the Mercantile Trust Company that cordial, comprehensive co-operation obtainable only from an institution of dependability, complete equipment and world-wide banking connections.

Banks, business houses and individuals seeking additional facilities are invited to investigate the special services we offer through the following nine departments, which are well equipped to serve:

Banking
Bond
Corporation

Real Estate Loan
Real Estate
Public Relations

Safe Deposit
Savings
Trust

Mercantile Trust Company

Member Federal Reserve System
EIGHTH AND LOCUST



U.S. Government Supervision

-TO ST. CHARLES

SAINT LOUIS

Capital and Surplus \$10,000,000

Encouragement for Bank Employees

By W. F. GEPHART

Vice President, First National Bank in St. Louis

TWO of the most difficult problems which confront modern commercial banks are, first, how to secure a proper supervision of the day by day work, and second, how to secure efficiency and loyalty on the part of the large number of employees.

Much of the work of a modern bank is of a simple routine character, requiring no great mental ability but carefulness in performance and ability to work accurately at a high speed at the rush periods of the department's work. There are relatively few departments of the bank which can be kept equally busy during the working day, however well distributed the work is. The introduction of machines to do many different kinds of work in a bank has enormously changed the character of the employee needed and at the same time, as in the case of the use of machines in other industries, enormously increased the amount of work which can be done.

Viewpoint of Employees

From the standpoint of the employees themselves the extensive use of machines in banking has been no more a clear gain to them as employees than it has in many other lines of industry. For example, in the old days, when bookkeeping was done by hand and when penmanship was so largely used, many bank employees could feel that there was much more personality in their work than is now the case. That is to say, personal characteristics of neatness, accuracy, and deftness secured for the employee consideration not only in salary but in general personal appreciation which is often not now the case. These machines can now be operated by boys and girls where the same work in earlier years required a mature man. Then too, the extensive division of labor and the creation of many departments has brought a condition about whereby a young man or woman may work in a bank for

many months or many years, in fact, without securing very much of a fundamental knowledge about banking. On the other hand, since many of the tasks are so minute and of a detailed character, it has made possible the learning of the particular task in a comparatively short time and, therefore, makes possible a high degree of mobility among the employees if the bank's departments are so organized as to secure rapid training in many different lines of work by a system of transfers.

Securing Efficiency

The best organized of modern banks, therefore, so construct their organization as to have in each department, in addition to the head, a small additional number who constitute, as it were, the skeleton of the organization. These men act as general supervisors of the work of the larger number of employees, the personnel of which undergoes considerable change from month to month. A properly organized bank can have a large labor turnover without seriously impairing the efficiency of operation.

Banks frequently complain of the difficulty of securing a sufficient number of men to fill the more important positions. But, if this is true, it is largely because the internal operation of the bank is not properly organized.

This leads to a consideration of the second problem: namely, that of securing efficiency and loyalty among employees. Because of the large number of employees in a modern commercial bank, it is quite impossible, as in the old days, for the president, or even the senior officers, to know in a personal way a sufficient number of employees which would make it possible for them to select for promotion the more promising ones. Therefore, in the best organized modern bank there has come to be a special department, usually called the personnel department, which has

for its business the supervision of the internal operation of the bank. These departments, which may have assigned to them one or more senior officers in general charge, organize the operating staff and thus the employees have an agency which takes the place of the president or senior officer in the old days. It is the function of such a committee to represent the interests of the employees, to see that they are properly trained, to discover the promising men, and to attend to promotions in salary and rank.

Length of Service

It is undoubtedly true that in some positions in the bank great importance should be attached to length of service, but a large number of positions in the modern bank are such that the skill and success with which the position is filled is not even remotely connected with length of service. While promotions on the basis of length of service have an important influence upon securing loyalty, yet on the other hand, nothing is more deadening and stultifying in its effect upon the general spirit of a bank organization than to over-emphasize length of service as a basis for promotion.

If the Personnel Department is functioning properly day by day, there will be little reason to wait until the close of the year or the close of a six months period to grant increases in salaries. If the employee has proven himself worthy of an increase he ought not to be compelled to wait six months to secure it. Nor will an employee object, but on the other hand, will welcome any fair method of measuring his performance. That is to say, employees will not object to careful records on attendance as well as accurate methods of measuring their performance day by day. Nothing is more stimulating to department employees than to apply performance records.

of
k.
ve
or
ze
ne
ch
or
lt
ee
i-
e
e
o

n
t
o
t
t